

MERCHANT BANKING PRACTICES IN FINANCIAL INSTITUTIONS IN NEPAL

A THESIS

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RECOMMENDATION

This is to certify that the thesis

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We found the thesis to be original work of the student and written according to the prescribed format. We recommended the thesis to be accepted as partial fulfillment of the requirements for Master of Business Studies (M.B.S.)

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DECLARATION

I hereby declare that the work in this thesis entitled, **Merchant Banking Practices in Financial Institutions in Nepal** submitted to Research Department of Nepal Commerce Campus, Faculty of Management, Tribhuvan University is my original work as partial fulfillment of the requirement for the Degree of Master of Business Studies (MBS) under the supervision of Prof. Dr. Bihari Binod Pokharel, Chairperson of Research Department, Nepal Commerce Campus.

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ABBREVIATIONS

AGM	Annual General Meeting
BS	Bikram Sambat
CIT	Citizen Investment Trust
F/Y	Fiscal Year
LTD	Limited
MB	Merchant Banker
MBS	Master of Business Studies
NAV	Net Assets Value
NBL	Nepal Bank Limited
NCML	NIDC Capital Market Limited
NDB	Nepal Stock Exchange
NIC	Nepal Industrial and Commercial Bank Limited
NIVCF	Nepal Industrial Venture Capital Fund
NMB	Nepal Merchant Bank and Finance Limited
NRB	Nepal Rastra Bank
NSE	Nepal Stock Exchange
NSMB	Nepal Sri-Lanka Merchant Bank Limited.
NSML	Nepal Share Markets Company Limited
RBB	Rastriya Baniya Bank
RBI	Reserve Bank of India
RMBFL	Royal Merchant Banking and Finance Limited
RS	Nepalese Rupees
SEBI	Securities Exchange Board of India
SEBON	Securities Board of Nepal
SEC	Securities Exchange Commission
TU	Tribhuvan University
VC	Venture Capital

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal is a developing country. The development of any country depends upon its economic development. The primary goal of rapid developing country like Nepal is to promote the welfare of the people and the nation as well. Capital formation and its proper utilization play a vital role for the process of economic development. Nepal is trying embark upon the path of economic development by economic growth rate and developing sector of economy. In this regard, the network of well-organized financial system of the country has great bear. It collects scattered financial resources from the masses and invests them among those engaged in commercial and economic activities of the country. In this way, the financial sectors provide saver highly liquid divisible assets at a lower risk while the investors receive a large pool of resources. This requires the productive activities, which in turn is the result of the investment venture in productive enterprises. It requires huge amount of funds to the establishment. Existing enterprises within the economy can be viewed as productive enterprises, which need long term and short terms investment for their operation, growth and existence. In the past, many efforts were made to change the economic status of Nepal. After the restoration of the democracy in 1990, the government of Nepal is continuously trying to uplift the economic standard of the people by bringing the different policies; economic policy, privatization policy and liberalization policy were a bit of success in the process of economic reform of the country. There above mentioned policies have helped in establishing many banks, financial institutions and other industries in Nepal.

The development of financial system is essential for economic growth and on efficient financial system fosters efficient mobilization of domestic savings and allocates resources to their optimum uses. The financial system contributes to greater accumulation of

productive capital by increased mobilization of financial resources and sustained high investment levels. Their role of financial intermediation as well as capital formation is to make lending and borrowing cheaper and to increase liquidity in the system. There were only two governments owned commercial banks operation till 1984, but a provision was made for establishment of commercial banks in foreign collaboration after economic liberalization. As a result of economic liberalization many commercial banks and finance companies were established.

Every organization has capital as the lifeblood. Capital structure is made by the combination and composition of the common stock, preferred stock and long term debt. The existence of an organized capital market plays a vital role in mobilizing and collecting the invisible resources to fulfill long term fund requirement of corporate sector. The role of capital market is significant when there is high demand of funds. In this situation, merchant bankers bridge the huge gap between demand for funds by the institutions and supply of untapped public savings. They mobilize funds from savers to investors through various channels assuring and promising return investments. Financial system contributes to greater accumulation of productive capital by increased mobilization of financial resources and sustained high investment levels. A developed financial system is very much crucial for the free enterprises and mixed economy. The mixed economy consists of markets, institutions and instruments, which helps to facilitate the efficient production of goods and services.

Financial institutions and financial markets compete as ways of providing borrower with access to capital and providing liquidity to investors. The financial market is broadly classified as money market and capital market. Money market is the type of market which is meant for a short term and for highly liquid debt securities. A money market typically involves financial assets that have a life span of one year or less. Its instruments include short term marketable, liquid and low risk securities. Money market instrument, sometimes, are also called cash equivalents or just cash. The main function of the money

market is to provide short term fund. The money market deals mainly of short term characters in monetary assets. A money market brings together the supplier and the demander of short term liquid fund. It is the place where short term surplus investible funds at the disposal of financial and other institutions and individuals are bid by borrowers again comprising institutions and individuals and also the government itself. A money market is created by means of a financial relationship between the supplier and demanders of short term funds.

Capital markets are these markets meant for long term securities issued by the government or a corporation. Capital market typically involves financial assets that have life spans of greater than one year. A capital market is an organized market for efficient and efficient mobilization of money capital or investable funds from the numerous investing classes (individuals and institutional enterprises) to finance their business either in the private sector or in the public sector of our economy. There are two types of capital markets such as securities market and non-securities market. Securities market is that market where financial assets e.g. share, debenture, bonds etc. are traded in accordance with prescribed rules and regulations. Securities market is also divisible into primary and secondary market. The primary market facilitates to raise funds from the market for first time and is often known as Stock Exchange in concerned with the trading of already issued securities and another non securities market represents the market where financial transactions are carried out between lender and borrower for a long period without issuing any securities in the form of shares, debentures in the market (Shrestha;2002:1).

The capital market provides an important base for the development of industry, commerce and the economy. For balance development, steady supplies of medium to long term capital funds are required. Supply of capital markets are the done by the institutions, which are engaged in mobilization of idle saving in productive opportunity. The main function of capital market is the collection of savings and their distribution for industrial investment, thus stimulating capital formation and to that extent, accelerating

the process of economic growth. The role of capital market has become crucial even in Nepal with the changes in the fundamental philosophy of the development process in the country i.e. shifting to free market economy and the consequent liberalization or globalization of the economy (Ojha; 2002:3).

In this way, the development of merchant banking services is closely linked with world wide move towards open and market oriented economic system. The development of merchant banking services is crucial for the growth of capital market. Merchant banking activities include all activities such as information of different financial resources, required procedure to achieve these resources or any other required managerial work for such activities. The development of liberalized and market oriented economy, the banking and financial system is also expanding gradually, resulting with the introduction of innovative financial services and instruments. As a result, the financial system has been experiencing there is though competition among the players of the financial system (Aryal; 2060:63).

1.2 History of Merchant Banking

The father of the modern banking institutions in Nepal is Tejarath Adda. At the time of Rana regime there was no any organized financial institution. The evolution of the organized financial system in Nepal has a more recent history than other countries of the world. Before the establishment of Tajarath Adda during the period of Rana regime, the unauthorized sectors like money lenders, goldsmiths, and landlords have their universal dimension on the financial matter. They used to charge very high interest rate. The history of modern financial system is Nepal was begun in 1973 with establishment of Nepal Bank Ltd as the first commercial bank of Nepal. Later, in 1956, Nepal Rastra Bank as a central bank was set up with an objective of supervising, protecting and directing the functions of commercial activities.

The concept of merchant banking emerged slowly in Nepal. We have been seeing the activities of merchant banking since the establishment of Nepal Bank Ltd. Development of activities through the country had created excess demand for the sources of fund by the over expanding trade industry, which could not be met by the local commercial banks and financial institutions. Under this circumstance, the corporate sector enterprise had the only alternative to avail themselves for the capital market services for meeting long term fund requirements through the issue of shares and debentures, The growing demand for funds from capital market has enthused many organizations to enter into the field of merchant banking for managing the public issue.

In the context of Nepal, though merchant banking existed with the establishment of Nepal Bank Ltd., in 1994 B.S. its existence was in crude form. After the restoration of democracy in 2046 B.S. and as announcement of government economic liberalization policy, private sector is attracted to invest in different organized commercial ventures. As a result, numerous public and private limited companies were established in a very short span of time to reap the benefits of economic liberalization policy of the nation.

The next contributing factor for the development of merchant banking was the Finance Company Act 2042, which gave a new dimension to the merchant banking services. Finance Company Act permits to purchase and sell the bonds issued by government of Nepal or securities issued by other companies or institutions, to underwrite them and form syndicate for such purpose or to participate in such syndicate and to act as broker under the Security Exchange Act, 1983, In this way, section 3(g) of the same act permits them to perform functions of merchant banking with prior approval of NRB. Merchant Banks emerged in the early 19th century in the USA with the introduction of Blue Sky Laws to protect investors from the promoters and security salesmen. In India, though merchant banking activities originated before its independence they were systematized only after restoration of independence, Indian banks should start merchant banking

services as a part of their multiple services that they could offer their clients State Bank of India started the merchant banking division in 1972.

After the restoration of democracy in Nepal, a few financial institutions emerged as merchant bankers and some of the financial institutions are involved in different merchant banking activities. Out of the listed companies, the following are the leading companies in the name of merchant banking in Nepalese financial markets, which is NIDC capital market, Nepal Merchant Banking and Finance Ltd, Citizen Investment Trust, National Finance Co. Ltd, Ace finance co. ltd, Nepal Share Market Co. Ltd, United Finance Ltd, Nepal Sri Lanka Merchant Bank Ltd and Nepal Finance and Saving Co. Ltd. Out of wide range of various services provided by merchant bankers, Nepalese merchant bankers provide very few services like issue management, underwriting, underwriting syndicate, registrar to the share etc. With the developing concept of merchant banking, remaining merchant banking activities should be practiced by the Nepalese Finance companies for equal development of merchant banking in Nepal.

Merchant banking is introduced in different ways in different periods. Merchant banking originated in the 18th and early 19th centuries in the United Kingdom when trade between countries was financed by bills of exchange drawn on the principal merchant houses. With the increase in international trade, the established merchant banks started the practices in lending their names to the new comers and accepting the bills of exchange on their behalf. They used to charge a commission for this purpose and thus acceptance business became the hallmark of merchant bankers. Once these banks had gained the confidence of the government, they were also entrusted with job of issuing bonds in the London market (Lakshmanna & Naik, 2002:88).

1.3 General Services Provided by Merchant Bankers

A merchant banker is provides many services from corporate counseling to underwriting of securities. Merchant bankers offer their services to the investors and corporate sectors

who want to invest their saving in appropriate sectors. Merchant bankers can provide many functions and services to the financial institutions by their different range of services. The merchant banks are specialized in activities that facilitate trade and commerce. This typically involves international finance, long term loans to companies and underwriting.

The range of services provided by merchant bankers is as follows:

1. Issue Management

Issue management is to subscribe the share capital through the public. It is another area of services rendered by merchant banker. Under this heading, it does all the functions relating to public issue from obtaining stock exchange approval, drafting prospectus, public issue announcement, collecting applications, allotment of shares, distribution of share certificates, listing of shares on stock exchanges to refund of excess money.

2. Corporate counseling

The merchant banker has to find out the problems of an enterprise and suggest ways and means to solve the problems in achieving organizational effectiveness. Thus, corporate counseling function is the counsel services given to corporate clients to ensure better corporate performance. It suggests suitable locations, technical consultancy and collaboration etc. to the investors.

3. Brokerage Services

Merchant bankers are agents of money and capital markets. They can play the role of broker in the market of stock exchange. In addition they can also play active roles on money market.

4. Management Consultancies

Merchant bankers conduct market research for both consumer and industrial products, develop and implement system designs and production management. At the same time operation research functions are also done for effective and optimum uses of the

resources. They may help to do the management audit of the companies to ascertain existing performance levels and to formulate plans for future growth.

5. Underwriting and Bridge Loan Financing

Underwriting is the guarantee or commitment to take up all shares/ debentures in case of all securities not subscribed by the public. It eliminates the risk arising from uncertainty of public response to new issue. The bridge is the short term loan against the issue itself.

6. Project planning

Project planning is to prepare the feasibility report covering market aspect of the product as well as technical, financial and economic aspects of the enterprise. It specifies the cost of project and financial pattern. This is one of the important aspects of services provided by merchant bankers.

7. Portfolio Management Scheme

Effective investment planning and constant review of portfolio are the two basic principles for effective portfolio management. Merchant bankers render the services of portfolio management of their clients. Merchant bankers accept the funds on behalf of the clients to play in the financial game on capital markets with an aim to earn target return.

8. Corporate counseling

The merchant banker has to find out the problems of an enterprise and suggest ways and means to solve the problems in achieving organizational effectiveness. Thus, corporate counseling function is the counseling services given to corporate clients to ensure better corporate performance. It suggests suitable locations, technical consultancy and collaboration etc to the investors.

9. Venture Capital

Capital is needed to establish any kind of venture. Venture capital means providing long term start up funds for high risk ventures, promoted by unknown entrepreneurs, technologies, which suffer from capital deficiencies, but which have a profit potential

through ultimate capital gains rather than through a steady dividend or interest yield. The merchant bankers have a great role in providing venture capital.

10. Lease Financing

Leasing is an important function of merchant bankers. Leasing could be defined as an activity where the owner of an asset gives the asset to another party to use for a specified period of time for a financial consideration. Merchant bank facilitates the customer in acquiring equipments through the leasing finance.

11. Factoring

Factoring is specialized financing scheme where the financing company, known as a factor, buys its clients receivable of trade credits or invoices outright. In order to provide the client with an additional source of capital, merchant bankers also render the factoring services.

12. Merger and Acquisition

Merchant bankers conduct market research for both consumer and industrial products, develop and implement system designs and production management. At the same time operation research functions are also done effectively for the optimum use of resources. They may help to do the management audit of the companies to ascertain existing performance levels and to formulate plans for future growth.

Thus, merchant bankers offer their services to the corporate sectors and investors who want to place their savings in appropriate investments. The range of services offered by merchant banker is wide and coverage of the merchant banking is enormous and vast. Merchant banking services, therefore, are of great help to entrepreneur customers who cannot afford a permanent staff or financial specialists (Shrestha; 2051:16).

1.4 Statement of the Problem

As mentioned above, the development of country depends upon well organized financial sector in the country. But developing countries like Nepal are facing many problems in

developing financial institutions. We have very few financial institutions in this country and those are not in good condition. Financial sector is facing one or more problems from every part, which ultimately affects the development of our country. Thus, financial sectors have been facing problems since establishment for sustained growth in the Nepalese economy.

Financial system is strengthened through developed financial markets that include capital market as well as money market. And the strength of capital market is highly dependent upon developed merchant banking system. The development of merchant banking services is closely linked with worldwide move towards open and market oriented economic system. Merchant banking play a vital role in economy and financial development of the country.

In the context of Nepal, where a lot of financial system is being affected due to insufficient capital, technical and financial support, merchant banks encourages them by its versatile services like project counseling, corporate counseling, portfolio management, venture capital, issue management etc.

Though merchant banking has emerged in developing countries long before, it has got new dimension only after the amendment of Finance Company Act 2042. In this way, we are not having a long history of merchant banking. People are unaware regarding the importance of merchant banking in the development of Nepalese capital market and overall Nepal. Lots of the corporate are still unaware on services provided by merchant banks and difference between commercial banking and merchant banking. The finance company act 2042 permits companies to sell and purchase the bonds issued by Government of Nepal of securities issued by other companies or institutions, to underwrite them and form syndicate for such purpose or to participate in such syndicate and to act as broker under the Securities Exchange Act, 1983. Similarly, section 3(g) of

the same act permits them to perform functions of merchant banking with prior approval of Nepal Rastra Bank.

Financial institutions are still lacking specific rules, regulations regarding merchant banking. Though, some acts like commercial bank act, finance company act, act for NIDC, CIT and other acts have permitted to undertake merchant banking activities, but these acts do not seem to be adequate. The question arises as to whether those merchant banking activities are under the regulatory control of securities Exchange act, under finance company act. Similarly, there is also no separate entity to carry out the merchant banking activities in Nepal. These merchant banking activities are associated with other transactions of the finance companies. NIDC Capital Markets was the only merchant banker to render the merchant banking services at the beginning. Later on other financial institutions and banks also entered into the field to reap the benefit of merchant banking. Some of the financial institutions and banks entered into the field of merchant banking, the development of merchant banking are still in its infancy. These are the main reasons for the lack of merchant banks and their services in Nepal. In spite of the importance of merchant banking services many of the merchant banking services in the country still appeared to be poor and only a few merchant banking services is in practice in our country. They main services are underwriting, issue management bankers to the issue and leasing. Thus, merchant banking in Nepal is understood to be synonymous with issue management, though globally this word is taken to mean many aspects of financial services.

The following research questions can identify the specific problems of merchant banking in Nepal.

1. What type of activities did merchant banker to diversify its sectors?
2. Are there an appropriate acts, rules and regulations for the development of merchant banking?

3. Whether or not merchant banking activities are under the regulatory control of Securities Exchange Act?
4. Is there any relationship between merchant banking income and total income?
5. What are the major problems for the development of merchant banking sectors?

1.5 Objective of the Study

Merchant banks play a vital role in economic and financial development of the country. If the country has strong financial position, then there will be arising many financial institutions smoothly. Financial activities grow with the improvement of economic situations. As the result of financial activities grows, the need of various financial institutions will be felt. Merchant banks have seemed in Nepal with the development of capital market. Merchant banking activities are one of the major supporting instruments for any ongoing business organization. Availing of the required merchant banking services help business sustain, develop, and prosper and so on. The main objective of the present study is as follows:

- 1 To study and evaluate the role of merchant banking towards the development of securities market in Nepal.
- 2 To analyze the growth of merchant banking in Nepal.
- 3 To evaluate the performance of merchant bankers in Nepal.
- 4 To investigate the existing problems of merchant banking in Nepal and provide the suggestion on the basis of major findings.

1.6 Need and Significance of the Study

There is importance of any research work in various fields. So far, this research work is concerned; very few have conducted on this particular subject matter of merchant banking. Merchant banking is relatively unexplored field in Nepalese context. There is hardly any availability of its research works, journals and articles on merchant banking in Nepal. In this context, present study will serve as a source of literature in the field of

merchant banking. The study to fill a serious gap in this important area of capital structure practices with focus on merchant banking services of financial institutions.

It may help the professionals in the industry to have better understanding on the impact of merchant banking activities in the securities industry and also it may help the academicians and the researchers who are interested to know about this field and especially to the regulatory authorities like Securities Exchange Board of Nepal, Nepal Rastra Bank and other institutions. Besides, lots of financial institutions like development banks, finance companies, commercial banks, merchant banks etc would benefit from it.

Thus, In brief this study would be important for many further researchers, university students, financial managers and analysts and regulatory authorities like Security Exchange Board of Nepal, NRB and other financial institutions in Nepal.

1.7 Limitation of the Study

In every case study, there is a pragmatic limitation under which the study is to be made. Theory and practice does not necessary match always. Other working problems such as time constraint, resources unavailability, study type and various officials' difficulties hinder in the research study. Study can go on and on without any limit and barrier restrict the study in one dimension of courses the field problems engross the study to a particular direction. In this study also various problems were encountered which dragged the case to a limit. This study is done for the partial fulfillment for Master's of Business Studies. This is not far from several limitations, which weakened the heart of the study, e.g. inadequate coverage of time periods taken, reliability of financial and statistical tools used and other variations. The study will be conducted within certain limitations and constraints. They are as follows:

- 1 The study is based on primary as well as secondary data. Any intentional default and reporting errors that may occur while obtain the data will not affect the proposed study.
- 2 Research is based on reports provided by listed financial institutions and responses made on through questionnaires.
- 3 Only available data is taken for the analysis and data provided by them. Thus the years are not constraint and the data provided by them are not verified.
- 4 In the study of merchant banking in Nepal, only the major financial institutions, which are actively participating in merchant banking activities, are taken.
- 5 Though there are lots of financial institutions in Nepal, the study is focused on those financial institutions that are the leading merchant bankers. It in only focused on merchant banking activities.
- 6 The daily, weekly, monthly and yearly data is used as per the availability of the study.
- 7 The study is conducted under the limited time.

1.8 Organization of the Study

The study has been organized into five chapters.

Chapter I: Introduction

Chapter II: Review of Literature

Chapter III: Research Methodology

Chapter IV: Presentation & Analysis of Data

Chapter V: Summary, Conclusion & Recommendation

The introduction includes the general background of the study, objectives of portfolio management, focus of the study, statement of problem, objective of the study and limitation of the study.

Thesis reviews are in second chapter.

The third chapter describes methodology employed to attain the objective of the research.

The fourth chapter deals with the information and it contains descriptive as well as statistical analysis of data or information.

The last chapter contains the summary, conclusion and recommendation of the study.

A bibliography and appendices will be attached at the end of the study.

CHAPTER II

REVIEW OF LITERATURE

2.1 Conceptual Review

2.1.1 Meaning of Merchant Banking

Merchant banking is a part of function of financial companies. A Few Nepalese financial institutions have been involved providing the service of merchant banking since their establishment. Out of the financial institutions, those which provide the services or work as underwriting corporate securities and advice to such corporate securities and potential clients on issues like corporate mergers, project planning, lease financing, management consultancies etc and involved in the ownership of commercial ventures is called merchant banking. It may be corporate body, banks, firm or proprietary concern. An investment banker is also known as a merchant banker.

Merchant banking means providing various service relating to capital market and finance to the corporate sector. It includes not only the activities for the above purpose in the country but also at times arranging funds from outside the country. The merchant bankers also provides the services as consultancy to the corporate sector on the issues like finance, capital structure and investments, mergers, takeover and amalgamations, establishing co-ordination between the government and corporate sector. it should be able to provides guidance to an entrepreneur on all matters from the stage of conception of a project in his mind till it goes into commercial production. A good merchant banker would be considered to be one who is expert, honest, have integrity and capacity to develop public relations. If any business concern needs funds from the capital merchant it would usually approach the merchant banker rather then banks or financial institutions. (Lakshmana; 2002:69)

Merchant banks and Investment bankers are same by their functions and nature. they purchase newly issued securities (stocks and bonds) from corporation and government and then resell there securities to investors in small quantities. The firm acts as a middleman in the distribution of new securities to the public and creators a primary market. Therefore, the people or institutions responsible for finding out investors for the initial public offering of securities sold in the primary market are called investment bankers. The principal function of the bank is to buy the securities from the issuing company and than resell them to investors. For acting the role of mediator, the investment bankers receive the difference, or spread, between the price they pay for the securities and the price at which the securities are resold to the public. This process of issuing securities to the public is called underwriting and, in this sense, the investment bank is also called underwriter and the group of underwriter and the group of underwriters is called an underwriting syndicate.

Investment banks also provide long-term loan to finance industry. They are sometimes described as industrial banks or private banks. In French speaking countries, people use the term banquets affairs. Most investments banks do not accept deposits from the general deposits from the general public, but deal with limited number of clients as on their own capital and reserves, to finance their lending to industry. Investments banks provide long-term finance to borrowers in two main ways. In the first, they grant long-term credit to companies usually for eight to ten years. In the second, they acquire part of the share capital of companies. Many companies sell their shares through investment banks, and the banks sometimes retain some of the shares. Investment banks provide several important extra services for their customers. They act as economic and financial advisers. If customers intend to undertake new industrial ventures, the banks may give technical advice (The World Book Encyclopedia, 2001).

Investment bankers market new stock and bond offering to individual and institutional investors around the world. Most of the bankers have now opened up ‘merchant banking’ or ‘merchants’ department which specialize in domestic corporate financing and associated business such as underwriting of capital, issues, acting as managers to new issues and evaluation of customers existing and proposed new business. These services are of fairly wide range, which extend to examination of proposals for mergers and amalgamation of companies and arrangements of loans or short-term finance. The banks also, because of their international connections, assist in arranging foreign exchange element required by industries for their projects and loans with banks and other institutions outside India (Tannan; 1996:581).

Merchant banking in India starts with management of public issues and loan syndication and has been slowly and gradually covering activities like project counseling, portfolio management, investment counseling and mergers and amalgamation of corporate firms. Although, merchant banking organizations present a long list of services they contemplate to render their clients but the main services so far being rendered by them are those as authorized by the securities and Exchange Board of India under categories , , and V. A merchant banker has been defined under the Securities Exchange Board of India (merchant bankers) Rules, 1992 as “any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities as manager, consultant, advisor or rendering corporate advisory service in relation to such issue management (Verma; 1992:20).

Management Banking stands for providing various services relating to capital market and finance to corporate sector. This includes not only the activities for the above purpose in the country but at times arranging funds from outside the country. British merchants formed the first merchant banks in 1880’s. From the 1930’s to the 1980’s the U.S. government prohibited any institution from engaging in investment banking. Since then,

however, a government has permitted large commercial banks to buy and sell securities within limits (Toor, 1998:1.30).

2.1.2 Nature of Merchant Banking

Nature of merchant banking refers that an organization service for the fulfill of their client financial requirements. Generally merchant banking activity involves the servicing of every financial need of the client. Therefore, it is a skill based activity and requires a focus skill base to provide for the requirements of clients. The services of a merchant banker could cover project counseling and pre-investment activities, feasibility studies, project reports, design of capital structure, issue management and underwriting, loan syndication, mobilization of funds from non-resident Indians, foreign currency finance, mergers, amalgamations and takeover venture capital and public deposits (Marchiraju; 1995:2).

Securities Board of India has made the quality of manpower as one of the criteria for renewal of merchant banking registration. These skills should not be concentrated in issue management and underwriting alone, which may have an adverse impact on business as witnessed in 1995. Merchant bankers can turn to any of the activities mentioned above, depending on resources, such as capital, foreign tie-ups for overseas activities and skills. They can provide the entire gamut of services or develop niche business. The depth and sophistication in merchant banking business are improving since the avenues for raising funds are widening and demand for funds is increasing.

2.1.3 Merchant Banking Organizations

There is no any specific rules, acts and regulations about the merchant banking in Nepal, different financial institutions mainly listed_finance companies are participated in activities of merchant banking. Nepalese merchant banking is not categorized because of lack of its acts. So, proper development of merchant banking activities in Nepal is only possible by development of its acts, rules and regulations. In India, merchant banks

operate in the form of divisions of Indian and foreign banks and financial institutions, subsidiary companies established by banks like SBI capital markets Ltd. can back Financial Services Ltd., PNB Capital services Ltd., BOI Finance Ltd., Indian Bank Merchant Banking Services Ltd., public and private limited companies or the firms organized by the stock brokers, stock exchange dealers, the financial and technical consultants and chartered accountants, securities and exchange board of India (SEBI) had divided merchant bankers into four categories viz. , , , and V.

(a) Categories of Merchant Banking

Merchant Banking in Nepal has no Acts for the categories of merchant bankers till now. There are no boundaries to perform as merchant banking services for financial institutions. But, India has followed the rules and acts about the merchant banking. Securities Exchange Board of India (SEBBI) has classified the merchant banking activities into four categories having regard to their nature and range of activities and their responsibilities to SEBI investors and issue of securities. They are categorized by the minimum net worth and initial authorization fee. The first category consists of merchant bankers who carry on any activity of issue management which will inter alia consist of preparation of prospectus and other information relating to the issue, determining financial structures, tie-up of financiers and final allotment and refund of the subscription and to act in the capacity of managers, advisor or consultant to an issue, portfolio manager and underwriter. The second category consists of those authorized to act as underwriter, advisor or consultant to an issue, The third category consists of merchant bankers who act as advisor or consultant to an issue. Since September 5, 1997 only category 1 exists.

Net worth: Minimum net worth for first category is Rs.5 crores, Second category Rs. 50 lakhs, third category Rs. 20 lakhs .

Registration Fee: Registration fee for first category is Rs. 2.5 lakhs annually in the first two years, Rs 1 lakhs in third year, second category Rs.1.5 lakhs annually for first two

years and Rs. 50,000 in third year, third category Rs. 1 lakh annually for the first two years and in third year Rs. 25,000.

Renewal Fee: category 1, Rs. 1 lakh to be paid annually in first two years and thereafter Rs. 20,000; category 2 Rs. 75,000 for first two years and Rs. 10,000 from third year.

2.1.4 International Scenario of Merchant Banking

There is long history about merchant banking in international scenario. It has begun from 18th and 19th centuries in the United Kingdom; Merchant banks came on the scene in the late eighteenth century and early nineteenth century. Industrial revolution made England into a powerful trading nation. Rich merchant houses that made their fortunes in colonial trade diversified into banking. Their principal activity started with the acceptance of commercial bills pertaining to domestic as well as international trade. The acceptance of the trade bills and their discounting gave rise to acceptance houses, discount houses, and issue houses. Merchant banks initially included acceptance houses, discount houses and issue houses. A merchant banker was primarily a merchant rather than his customers' entrusted banker with funds.

In the United Kingdom, the term merchant bank is used to denote such that are not merchants; sometimes for merchants who are not bankers and sometimes for business houses that are neither merchant nor banks. The confusion has arisen because modern merchant banks have a wide range of activities. Merchant banks in United Kingdom have function of finance foreign trade, issue capital, manage individual funds, and undertake foreign security business and foreign loan business. They also used to finance sovereign government through grant of long-term loans. They financed the British government to the state of Louisiana from Napoleon by raising loans from money market in London, and Lazard brothers granted loan to the Second World War commercial banks in western Europe have been offering multiple services including merchant banking services to their individual and corporate clients. British banks set up division or subsidiaries to offer their customers, merchant banking services (Rao; 1974:122).

There was a great influence of English and European merchant banks to the United States until indigenous investment bankers emerged in 1880's. In the early nineteenth century English and European Merchant Bankers met the requirements of finance for railroad construction and international trade. Later it was opened in USA as their own offices. During 1850-60 several merchant banks were set up to arrange capital and enterprise to promote railways, industrial projects and trade and commerce. Kidder, Peabody & co's was set up in 1824 and John Eliot Thayer banking firm in 1857. The merchant banks arranged to finance railroad construction, capital issue and different other projects. In the late 1890's and early 1900's investment bankers replaced bankers and promoters who early played a prominent role in issue of securities. Investment bankers apart from launching and organizing industrial units and mergers, helped transform privately held companies in to public owned companies.

Investment banking largely remained unregulated until the Blue Sky Laws were introduced in Kansas to protect investors from fraudulent promoters and security salesmen. However, their growth was facilitated by enactment of Federal Act 1941, emergence of US dollars as leading currency and expansion of activities of US banking system. Prominent Investment Bankers in 1920's were Kidder, Peabody, Drexel, Morgan & Co., Brown Bros. and T.P. Morgan who brought and sold corporate bonds and stocks on commission. Dealt in federal, state and municipal securities, trading and investing in securities on their own account, originating and distributing new issues and participating in the management of corporations whose securities they have helped distribute or in which invested.

After the great crash in 1929 and depression, the investment banking business considerably contracted and experienced heavy financial losses. The federal government enacted several laws, called New Deal Act, to reform Wall Street practices to protect the interest of the investors. Officially called the Banking and Commercial

banking and prohibited depositories from underwriting. Securities Exchange Act of 1934 sought to correct practices in securities trading.

Merchant banking activities were formally initiated into the Indian capital markets when Grindlays Bank received the license from Reserve Bank in 1967. Grindlays which started with management of capital issues recognized the needs of emerging class of entrepreneurs for diverse financial services ranging from production planning and systems design to market research. Apart from meeting, the needs of small-scale units, specially it provided management consultancy services to large and medium sized companies. Following Grindlays bank, City Bank set up its merchant banking division in 1970. The division took up the task of assisting new entrepreneurs and existing units in the evaluation of new projects and raising funds through borrowing and issue of equity. Management consultancy services were also offered.

Consequent to the recommendations of Banking Commission 1972. Those Indian banks should start merchant banking services as part of their multiple services they could offer their client; State Bank of India started the Merchant Banking Division in 1972. In the initial year the SBI's objective was to render corporate advice and assistance to small and medium entrepreneurs.

The Glass Stegall Banking Act prohibits commercial banks from acting as investment banks or owning a firm dealing in securities. The Act has been challenged by banks offering money market mutual funds and other investment services and is expected to be the subject of reform. After the US Federal Reserve Board decided in January 1997 to issue a sweeping proposal (subject to 60-days comment period) the world loosens restrictions and banks activities in the securities business. Under the proposal bank holding companies and their securities industry affiliates can offer 'One Stop Shopping' for their customers.

The securities activities of banks are allowed under a special provision in Glass-Steagall Act to be conducted by separately capitalized subsidiaries, in 1987 when Fed first began allowing the existence of such subsidiaries. It subjected them to strict provision, including a series of barriers “firewalls” separating the activities of the bank and the affiliate. As the part of the recent changes to those provisions the Fed has voted to allow the securities affiliate of banks to generate as much as a quarter of their revenue from the underwriting and dealing of securities and increase from the previous limit of 10 percent.

Registration of Investment banking in USA

Investment Banking in USA as compared to Merchant Banking in the United Kingdom is subject to following regulation.

-) The Securities Exchange Commission (SEC) exercises advisory and regulatory role on investment bankers.
-) Investment Bankers were restricted from undertaking reorganization of public corporations under the Chandler Act. The task was assigned to distinguished trustees.
-) Association of trustee with either the issue or its Investment Banker was prohibited under the trustee Indenture Act, 1939. To protect the interest of security-holders the trust indenture had to be filled with SEC.
-) The investment and portfolio activities become subject to SEC supervision.

Investment trust were covered by Investment Company Act, 1940, which sought to regulate them; and investment advisors are required to be registered under the Investment advisors Act, 1940. SEC was designated the supervisory and enforcement authority. Its powers were further strengthened in 1960 by authorizing it to inspect the records and accounts of firms engaged in the business. The increased regulation and control of domestic operations gave a fillip to large US banks to markets. The US investment banks have extended their operations to the international level. They are largely responsible and globalization of capital markets. They have prominent presence in London and other

European financial centers. Investment banks have today a strong parent, a strong balance sheet and a strong international network to play a global role (Lakshmana and Naik; 2002:88).

2.1.5 Responsibilities of merchant banking in Nepal

The responsibility of the merchant banker is ensuring the completeness of the disclosures is of paramount importance in view of the fact that entire reliance is based on offer document either prospectus or letter of offer because an independent agency like a merchant banker has done the security. Merchant banker has to be responsible in a great deal in terms of many things to many like investors, clients and other bodies. Investor protection is fundamental to a healthy growth of capital market; protection is not to be can coined as that of compensating for the losses suffered.

1. Project evaluation and due Diligence

Due diligence and project evaluation is one of the major responsibilities of the Merchant Banker. The Merchant Banker has to appraise the project of a bank or financial institutions before accepting an assignment. However, where a bank/financial institution have not appraised the project, the Merchant Bank undertakes a detailed evaluation of the project before taking up an assignment for issue management.

2. Capital structuring

The Merchant Bankers should take into account the various factors such as leverage effect on earning per share, the project cost and the gestation period, cash flow ability of the company, the cost of capital, the considerations of management control, size of the company and general economic factors while designing the capital structure. These exercises are done mainly in order to meet the fund requirements of the company taking due cognizance of the investors preference.

3. Pricing of the issue

It is also one of the main deals of the Merchant Banker. The merchant banker looks into the various factors while pricing the issue. Some of the factors are past financial performance of the company, book value per share, stock market performance of the

shares (for existing companies, stock market perception of the company/group promoters, price earnings ratio of the company/industry, brand equity, if any). The merchant banker has a vital role to play in pricing of the instrument.

4. Bought and Deals

The concept of Bought and Deals of public offering was started from India. It started off with over the Counter Exchange of India where a merchant banker act also as a sponsor and either takes up the entire issue to be offered wholly on jointly with other co-investors and off-loads the same to the public at a later date by an offer for sale. The role of a merchant banker on the OTC exchange is not only that of a merchant banker but that of an investment banker too.

5. Marketing of the Issue

Marketing of the issue is also a vital responsibility of the merchant banker. The first stage in the pre-issue marketing for placement of the issue with the financial institutions, banks, mutual funds, FII's and NRI's second stage is the marketing of the issue to the general public through various vehicles such as press, brokers etc. (Bhattari;2002:98).

2.1.6 Qualities of Good Merchant Bankers

Merchant banking has many different qualities. The following are the qualities of good merchant bankers.

1. Attitude towards problem solving

It is one of the most important personality traits of a merchant banker. Every client coming to him has to return fully satisfied having consulted a merchant banker. Positive approach to understand the view points of other, their difficulties and their adverse circumstances, is possible only when a person is skilled in human relations particularly the inter-personal and intra-personal behavior. Effective communication and proper feedback are the pre-requisites for creating a positive attitude towards problem solving which could be gained partly through learning process and partly as in born quality.

2. Aggressive Action

Though, aggressiveness is a personality trait of a good leader; it has a wider connotation in merchant banking. Aggressive merchant bankers are always looking for new business. A good merchant banker is the one who does not allow his client to think anything outside except what he has been advised. Therefore, promptness in grasping the clients, problems and providing better choice amongst alternative solutions evidence aggressive approach in the profession to hold the client's interest is entirely for the present as well as for the future.

3. Leadership

Leadership is a quality that a merchant banker should possess. All relevant skills, undated knowledge to interact with clients and effectively communicate are required for this leadership is synonymous with followers who follow the one who leads.

4. Co-operation and friendliness

Co-operation and friendliness coupled with persuasiveness are the main instruments with which a merchant banker mixes with the people, gathers information, obtain business mandate and renders satisfactory services to the clients. Business of an honest merchant banker spreads with geometrical propagation when he shares the thoughts of his clients with sympathetic gestures and offers pragmatic suggestions without greed or favors. Friendliness must flow as natural traits a merchant banker to win over the trust of the clients like a doctor or lawyer who retain their clients permanently. No doubt, these two characteristics are the symbols of good leadership but it hardly needs to be stressed.

5. Wider contacts

Success of merchant banker depends upon his sociable nature and the richness of wider contacts. A merchant banker is supposed to be acquainted deeply with all the constitutions of merchant banking. Merchant bankers should widen contacts and references and continue to maintain the relationship with goodness, honor and humor by meeting people in people through writing and in special gatherings.

6. Inquisitiveness for acquiring new skills, information and knowledge

Merchant bankers should always be ready for acquiring new skills, information and knowledge from different fields. Merchant Bankers live on their wits they earn by giving information to needy clients. Therefore, they should keep abreast with latest information in the areas of the service, product and market. This is possible if merchant bankers possess the quality of inquisitiveness.

2.1.7 Role of Merchant Bankers

The role of merchant bankers cannot be defined. The role of merchant banker is dynamic in the wake of diverse nature of merchant banking services. Merchant banker's dynamism lies in promptly attending to the corporate problems and suggesting ways and means to solve it. The nature of merchant banking service is dependant oriented and promotional to help the industry and trade to grow and survive. Merchant banker is, therefore, dedicated to achieve this objective through his dynamism. He is always awake to renew his skills, develop expertise in new areas so as to equip himself with the knowledge and techniques to deal with emerging new problems of corporate business world. He has to keep pace with the changing environment where government rules, regulations and policies affecting business conditions frequently change where science and technology create new innovations in production process of industries envisaging immediate renovations, diversifications in modernization or replacements of existing plant and machinery or other equipments putting new demands for finance and necessitating overhauling of the capital structure of the firms. Merchant banker has to think and devise new instruments of financing industrial projects. He has to assume wider responsibilities of saving industrial units from going sick and guiding industries to be set up in industrially backward areas to eliminate regional imbalances in industrial, government its agencies along with the entrepreneurs, the investors and the whole community. He must bridge the communication gap between different sectors and resolve problem being faced in different areas concerned with the business world.

To discharge the above rule, a merchant banker has to be dynamic. For this reason, a merchant banker is sometimes, called M.B. i.e. Moving Bottom that means who never sits at one place, always moving attending meeting clients and constituents doing business and getting business by attending meeting and conferences imparting knowledge to others and acquiring supremacy in possession of latest information. His role depicts a personally cult, which is unique and envious to be followed by others. In the days ahead, merchant bankers have very significant role to play turning their activities to the requirements of the growth pattern of corporate sector, the industry and the economy as a whole, which is in it, a challenging task, and to meet those challenges. Merchant bankers will also have to adopt new ways and means in discharging their role and have to be more vigorous and strategic in planning their role.

2.1.8 Need and Importance of Merchant Banking

The need and importance of merchant banking is essential aspect for the development of each country. It plays a highly significant role in mobilizing funds of savers to investible channels assuring and promising return on investments and thus can help in meeting the widening demand for investible funds for economic activity with the growth of merchant banking profession. Corporate enterprises in both public and private sectors would be able to raise required amount of funds annually from the capital market to meet the growing requirements of funds for establishing new enterprises, undertaking expansion, modernization and diversification of the existing need for a vigorous role to be played by merchant banks.

The need of merchant banking institutions is felt in the wake of huge public savings lying still untapped. The merchant banking has been the development activity throughout the country because of the excessive demand on the sources of funds needed for expanding industry and trade. It fulfilled a wide gap unabridged between the supply and demand of investible funds. All India Financial Institutions had experienced resource constraint to meet the ever-increasing demand for funds from the corporate sector enterprises. In this

circumstance, through capital issue of equity and debentures with the growing demand for funds, there was pressure on capital market that enthused the commercial banking and shared the growing capital market. With this result, all the commercial banks is nationalized and public sector as well as in private sector including the foreign banks in India have opened their merchant banking windows and competing in this field. There has been a mushroom growth of financial consultancy firms and broker firms doing advisory functions as merchant bankers as well as managing public issues in syndication with other merchant bankers.

Merchant banks have been procuring impressive support from capital market for the corporate sector for financing their projects. This is evidence from the increasing amount raised from the capital market by corporate enterprises year after year. In view of multitude of enactments, rules regulations, guidelines and off shoot press release instructions brought out by the Government from time to time imposing statutory obligations upon the corporate sector to comply with all those requirements prescribed therein, the need of skilled agency existed which could provide counseling in these matters in a package form. Merchant bankers, with their skills, updated information and knowledge, provide the service to the corporate units and advise them on such requirements to be complied with for raising funds from the capital market under different enactments viz. Companies Act, income tax act, foreign exchange regulation act, securities contracts(regulation) act, and various other corporate laws and regulations.

Thus, the merchant bankers help industry and trade to raise funds, and investors to invest their saved money in confidence, safety and expectation for higher yield. Merchant bankers advise the investors of the incentives available in the form of tax relief, other statutory relaxations, good return of investment and capital appreciation in such investment to motive them to invest their savings in securities of the corporate sector.

2.1.9 Business Development Approach and Strategy for Merchant Banking

Every merchant banking institution has its approaches and strategies to operate the competitive market. The merchant banking activities are performed by its strategies to achieve the goal and establish the highly competitive business. The basic approach for a merchant banker is to maintain close contact with other agencies involved in managing public issues like man aging broker, advertising agencies, firms of registrar to the issue, banks operating as bankers to the issue and advocates/ solicitors who have expertise in the area of corporate law and consultancy. These agencies could give clue to the new business opportunity to be explored by the merchant banker.

Merchant Banking services are highly competitive business activities and to get business, merchant bankers have to stand on their heels and run to grab the business opportunity. Each of the officers in merchant banking department, division, cell or bureau or company should have the requisite skills of marketing and salesmanship to ensure that the opportunity once found is not lost without obtaining mandate from the temperament of liking others. The source for locating business opportunities would vary in areas which give rise to new ideas, open avenues to new business and provide scope for additions in the expansion, amalgamation or reconstruction etc. These sources of information could be the banker whose client is thinking in terms of such ideas, the financial and technical consultancy firms, which are working on such ideas for their clients, licensing authorities of the central Government or Registration Departments of the state approached by the prospective borrowers with these institutions could provide a clue for different news dailies, weekly, and fortnightly or monthly magazines provide the sources of business opportunity. Such information could be the speeches of business executives, proceeding of annual general meeting of companies specially chairman's report highlighting future prospects for the company, personal interviews granted to the press, opening opportunities for entrepreneurs to take up new activities, information published by chamber of commerce and industry, house journals of prominent industrial houses, press

release by Government, import licenses or capital goods committee's clearance, foreign collaboration permissions, etc.

The strategy could be different in terms of many things but the basic strategy should be to get information, follow up the same and materialize the business opportunity. To this end, the merchant bankers should frequently join clubs where the business magnates meet and freely mix with them, talk about their future business plans and converse with them on issues of interest to them, join association or club of merchant bankers and be inquisitive to trace new opportunities for the merchant banking business, explore the possibilities of working with the existing merchant bankers to the forthcoming public issues or other merchant banking activities. He should develop contacts with agencies like India Investment Center which is helping the non-resident Indians in getting industrial licenses, Central Government clearances, foreign collaboration or approval form such like institutions and thus he can get business in areas of credit syndication corporate/ project consultancy, issue management portfolio management for NRIs etc. In addition to above, merchant banker should take steps to promote new business in following manner.

1. Acquaint the existing business houses/ clients of incentives given by Government, new opportunities for business, to enthuse them to take up new activities.
2. Contact frequently the small business owners convince them of business growth through expansion of their activities by forming limited companies, pooling resources together through merger and amalgamation etc.
3. Helping private limited companies to convert into limited companies and take up new activities, expansion, modernization, diversification program etc. and assure them of requisite help,
4. Hold interviews with top business frequently and appraise them of merchant banking services and new areas of business activity to elicit from them and develop business connections.

Thus, merchant bankers, in addition to above, should assume the role of an experienced and skilled investigator and researcher to locate new business opportunities and expert marketing man to sell the service products instantaneously.

2.1.10 Banker and Merchant Banker

A banker and a merchant banker can be differentiated in terms of many things. A banker has funds with him whom he mobilizes through deposits and borrowing or other ways and then deploys or lends these funds, where as a merchant banker dose not have any fund in his own hand but he has he expertise and access to various sources of funds as per needs of the client. The bankers find merchant banking activity to be highly remunerating because of:

- I. Deposits on short term basis
- II. The business helps to improve their profits and profitability
- III. The business also helps to get good corporate clients

They are extending the merchant banking services through

- I. Merchant banking divisions established by them
- II. Merchant banking subsidiaries established by them

2.1.11 Merchant Banks and Commercial Banks

The basic difference between merchant banking and commercial banking is that the merchant bank offers mainly financial advice and services for a fee and collects through the non cash mode of finance i.e. security papers while commercial banks accept deposits and lent money in the mode of cash. Moreover, the merchant bank offers portfolio services to its customers (individuals and corporate) while the commercial bank provides retail trade banking services to its customers. The regulatory body for commercial banks in Bangladesh is Bangladesh Bank, Ministry of Finance. Those banks have also been guided by the Bank Companies Act, 1991. As per the Bank Companies Act, “Banking means i.e. commercial banking the accepting, for the purpose of lending or investment of

deposits of money from the public, repayable on demand or otherwise, and withdraw by draft, order or otherwise.” On the other hand, the regulatory body for merchant banks in Bangladesh is the Securities and Exchange Commission (SEC). They define merchant banking as “ Merchant banking means any person who is engaged in the business of issue management either by making arrangements regarding selling, buying, underwriting, or subscribing to the securities underwriter, manager, consultant, advisor or rendering corporate advisory services in relation to such issue management.

2.1.12 Securities Trading and Investment Banking

There is difference between securities trading and investment banking. The investment banking is concerned primarily with new issues, whereas securities trading relate to existing securities. For example, Merrill Lynch is acting as an investment banker when it sells a new issue of American Telephone and Telegraph (AT&T) common stock, but it is a securities trader when it participates in the exchange of existing AT & T common stock. Some investment firms, such as Merrill Lynch, Salmon Brothers, and Dean Witter Reynolds, perform both investment banking and securities trading functions while other smaller firms specialize in one function. Investment bankers perform several important functions to bring new securities to the investing public. The major functions of investment bankers are 1) Origination 2) Underwriting, and 3) Distribution. New securities are created during origination, bought by investment bankers during underwriting and sold to investors during the distribution phase.

(a) **Origination:** Security flotation is complex matters, and security issuers look to the investment banker for specialized assistance during origination. Origination is the important function of providing issuers investment advice, information and assistance. The investment banker commonly.

- Advises the issuer on the type of security and specific terms that are most acceptable during current financial market condition.
- Prepares and assists in filing a prospectus with the Securities and Exchange Commission.

- Arranges for the efficient distribution of the new issue.
- Arranges for a number of operational requirements such as trustees, security indentures (contracts) and safekeeping.

Issuers depend heavily upon investment bankers who are financial market specialists to create securities, which meet of the issuer's needs and, simultaneously, are acceptable for sale to investors.

(b) **Underwriting:** Investment banking firms often purchase a new issue or guarantee its sale at a specified price. The investment-banking firm underwrites the new issue when it assumes the marketing risk. If the security is not sold to investors at the offering price, then the underwriter incurs the loss. Underwriting is important to the issuer because it grants the amount of money which will be raised by the security issue.

(c) **Distribution:** The investment bankers distribute the issue to many investors. To sell the issue quickly, a syndicate of many firms is formed for each issue, and the securities are distributed through a large network reaching many potential investors (Major financial institutions: 194).

2.2 Review of Related Studies

2.2.1 Review of Article

Shrestha (2052). "Portfolio Management, A merchant banking service" in Nepal Bank patrika-Ashwin Masanta, has written portfolio management as one of the merchant banking services. According to Mr. Shrestha, optimal portfolio produce the maximum return with minimum portfolio, it has been purely a professional approach. Merchant bankers are one of those who render this service to the investors. He writes portfolio management, thus means the personal commitment of Merchant banker to take care of investment of investor with the prudence and astuteness of a professional fund manage to give investor his money, worth.

According to Mr. Shrestha two basic principles for effective portfolio management are effective investment planning and constant review of portfolio. Merchant bankers must consider the factors such as fiscal, financial, monetary, credit policies of central bank and guidelines and directives issued time by stock exchange. They should constantly review their investment in securities and continue selling and buying the same to earn profits.

In connection to portfolio management in Nepali context, Mr. Shrestha writes there is no any regulatory framework made in this sector so far in Nepal. Neither the government has initiated any law nor has the stock exchange board of Nepal issued any rules and regulation regarding the operation of portfolio management service. However, NIDC Capital Markets Ltd, 1st merchant bank in Nepal, has launched the step to render this service form its initial period.

Pokharel (2057). “Merchant Banking Services in Nepal” in banking Prabardhan, vol. II has mentioned on Regulatory Aspects of Merchant banking in Nepal. According to Mr. Pokharel, Merchant Banking is a new concept for Nepal. Its role as an important financial intermediary cannot be challenged from anywhere in the growing financial system of Nepal. Although a few financial institutions (basically Finance Companies) are involved in different merchant banking activities, there is no clear definition of merchant banking in Finance Company Act, 1986 and no specific legal provisions to be complied by merchant banker. However section (e) of Finance Company Act, 1986 permits finance companies to sell and purchase the bonds issued by Nepalese Government or securities issued by other companies or institutions, to underwrite them and to from syndicate fore such purpose or to participate in such syndicates and to act as broker under the Security Exchange Act 1983. And section 3 (g) of the same Act permits them to perform functions of merchant banking with prior approval of NRB.

Since there is no separate entity to carry out the merchant banking activities in Nepal, these activities are associated with other transaction of finance companies. These institutions are expected to meet NRB's requirements on:

- Minimum paid-up capital and the prescribed risk- weighted capital ratio.
- The liquidity ratio
- Merchant Banking activities up to 60% of total Credit and Investment portfolio
- Issue Management and underwriting up to maximum of 10% of total loan and advances of finance company

Likewise, there is no guideline issued by NRB especially for merchant banking in following respects:

- The minimum acceptable percentage of income from fee-based activities
- Issuance of negotiable certificate of deposits; and
- Terms governing the acceptance of time deposits

Mr. Pokharel has also pointed out on examination requirements for Merchant Banking. He writes that is a matter of fact that no adequate directives have been issued for the regulatory and monitoring purpose pertaining to Merchant Banking, however inspectors while making supervision to these services should basically focus on the following parts of these transactions.

- Agreement between the parties, specific terms and conditions
- Legal and regulatory provisions related to public issue (Company Act, Securities Board's Regulations)
- Underwriting services and its accounting treatment
- Volume of Underwriting and issue management (to confirm whether these transaction fall under the NRB's directives or not)
- Other issues relevant to specific merchant banking function

Mr. Pokharel also writes the problems and issues in Merchant Banking services in Nepal in eight points which is mentioned below.

1. There should not be confusion about the customer in any business. However in merchant banking services, especially in issue management, some problems can be prevailed. MBs are commissioned and paid for the company issuing the share/ debentures. Apparently, the issuing company is the customer of the MB. However the fee received by the MB comes from the investors of the share/ debentures. Thus it is not wrong to say that the fees to MB are ultimately paid by the prospective investors of the shares/ debentures. Thus it is very hard for MB to serve for the best interest of both investors and issuing company.
2. Because of heavy over- subscription of issues and unrealistically low flotation pricing of issues by existing company, post issue management has become a difficult task in Nepal. The problems are accompanied by rigid rules of allotment prescribed by stock exchange that favor small applicants and therefore increase the number of applicants. The banking system is extensively used for this purpose but it seems very hard to cope with the load.
3. Merchant bankers should ensure to the investor that all possible information about the issue is given, and that post-issue management i.e. allotment of shares etc. and refund are affected with utmost expedition. In the pre-issue phase, MBs should ensure the investors that the issuer is having a good track record and thus MBs should give a clean cheat to the issuer. In case the issuer is found guilty then MBs ultimately suffers and should face the public investors.
4. Due to the lack of adequate legal and regulatory framework, merchant banking services has become more challenging for the monitoring system of Nepal specially for the central bank
5. To the issuing company, MBs should render high standards of professional services and also perform their role with due diligence.
6. A sound financial market is needed to adopt the different merchant banking services. Due to the limitation of financial market the services rendered by merchant banking are also limited in Nepal.

7. According to comprehensive guidelines formulated by Stock Exchange, a company should either be already listed or should be listed is being done lately due to large numbers of shareholder, and provision regarding transferability.
8. In implementing self-regulatory mechanism, MBs would have to monitor the performance of other agencies that also provides services to the issuer. There are advertising agencies, registrar to issue and other financial institutions. But in Nepal MBs do not have any control over these agencies, although MBs are held responsible for the performance or lack of it be the associated agencies.

Aryal (2060). “Merchant Banking and Mutual Fund in Nepal” in Nepal Rastra Bank samachar. He highlights the scenario of merchant banking and mutual fund in Nepal. As far as Mutual fund is concerned, Mr. Aryal says that the concept of mutual fund has been introduced in Nepal from last decade. He again writes, there is no searate entity or company to carry over this business in Nepal. NIDC Capital Market Ltd. Operated as a manager and NIDC has been acting this business as a trustee.

Regarding NCM Mutual Fund, 2059 Mr. Aryal says NIDC Capital Market Ltd. is recently launching NCM Mutual Fund, 2059. A financial services or an scheme which aims to invest the fund/ money collected from various investors, out of 10 million unit, 1.5 million units for trustee and manager, approximately 1.37 million unit holders of the first NCM Mutual Fund, 2050 and approximately 7.17 million units for public. NCM Mutual 2059, manager can invest as follows: in share investment 65%, debt investment 15% , and 20% credit to organization as short term and medium term loan.

This scheme is supposed to close the certificates of Mutual funds units. But on the request and demand of the investors, scheme would restart and transaction of the mutual fund is being done from stock exchange. Now the scheme is restructured and closed ended. A management committee takes all the decision regarding mutual funds.

Mr. Aryal also gives examination procedures for merchant banking and mutual fund as follows:

Merchant Banking: Inspectors should primarily focus on the following aspect while making supervision of the merchant banking activities:

- Agreement between the parties, specific terms and conditions
- Legal and regulatory provisions related to public issue (Company Act, Securities Exchange Act and Nepal Securities Board's Regulations)
- Underwriting services and its accounting treatment
- Other issue relevant to specific merchant banking function

Mutual Fund: NRB has not issued specific directives on Mutual fund related activities however the company carrying mutual fund activities may design specific norms and self-regulatory provisions with the objective of diversifying risk. These provisions may include:

- Limit of investment in a company
- Maximum holding limit of shares/debentures of a company
- Listing of units with the stock exchange
- Liquidity provision
- Calculation of NAV and costs incurred by the managing company

'Biji' (2060). "Leasing Finance in Nepal" in Nepal Rastra Bank samachar writes about theoretical framework, present status of leasing finance and types, problems and suggestions of leasing finance in Nepal. In his article, the problem of leasing business in Nepal are lack of legal provisions, insufficient regulation, lack of business activities and mega projects, discriminatory treatment for loan loss provision and confusing procedure for depreciation. Mr. Gautam concludes at last that leasing is a long term financing activity. It allows both leaser and leaser with various advantageous like cent percent financing, depreciation facility even on hand, financing, depreciation facility even on hand, financing flexibility and so on. This does not mean that leasing is risk free and does

not have a stated interest cost. It creates some problems for rentals. It raises some questions during the transfer of ownership, on the realization of the salvage value of the asset and obsolescence in the leased asset. The new income tax act, just mentions the nature of lease, process for repayment, treatment of depreciation, sale or transfer of asset and process for treatment of tax.

The handicaps for venture capital companies in India like in other developing countries as mentioned on the concept paper are

- Insufficient understanding of Venture Capital as a commercial activity
- Limited flexibility in investment area
- Investor attitudes of retaining control over the business ensuring to pass over to their families.
- Existence from investment is limited
- Some legal inadequacy such as inter-corporate investment without prior approval is prohibited and trust funds cedes all rights relating to annual or extra ordinary general meeting in favor of public trustee
- VCF has been limiting its role of financing only; the post investment support services are not taken care of.

Following are the objective of NIVCF:

- To support small yet expanding and successful companies, which are not yet matured for going public and new companies which are not big enough for going public but where the entrepreneurs have excellent educational background, financial standing and a clear concept.
- To gear up the local potential entrepreneurs in adapting to emerging common market concept worldwide by providing comprehensive management support to offset the entrepreneurs inexperience with the specific market and technology.
- To secure good returns to the investment through capital gains beside current income.

The areas of investment by NIVCF are:

1. Technology transfer
2. Foreign Exchange earning
3. Agro-processing
4. services and
5. Turn around companies

In the handout prepared by Nepal Merchant Banking & Finance Ltd, the details of services provided by the company to its customer as Registrar to Share Issue have been given. According to the handout, the services provided by NMB under Registrar to Share Issue are as follow:

Under the activity, NMB provides following services:

1. Maintain and update shareholder's files on regular basis
2. Maintain record of signatures of the shareholders
3. Verify shareholders' signatures as and when required
4. Obtain document in case of share transfer
 - (a) Covering letter of Nepal Stock Exchange Limited (NSE)
 - (b) Dakhil-Kharej form verified signature
 - (c) Share certificate as per the covering letter of NSE
 - (d) Transfer charge NPR. 5 (In words Nepalese Rupees Five only) per certificate (to be borne by the concerned shareholder)
 - (e) A copy of citizenship certificate of the shareholder in case of new shareholder.
- (5) Transfer of share Certificates:
 - (a) Register the name of the buyer/ seller in the shareholder's book
 - (b) Allocate registration number to each transaction
 - (c) Give identity number
 - (d) Issue new share certificates by spitting the share certificates in case of partial transfer

- (e) Registration (dakhila) of share certificates and transfer of the same to the buyer's (shareholder's) name.
- (f) Affix authorized signature of the company secretary/ director as appropriate and official seal of the Bank after the endorsement
- (g) Forward transferred share certificates to NSE for distribution along with transfer list.
- (h) Recover the transfer fee of NPR 5.00 (In words Nepalese Rupees Five only) per transfer.

6. Split Ordinary share certificate

- (a) Split of certificate at the request of the holder
- (b) Sign on the split documents (Annexure 1 of format issued by Nepal stock Exchange Ltd.)
- (c) Recover the split fee of NPR 5.00 (In words Nepalese Rupees Five only) Per split (to be borne by the holder)

7. Pledge of ordinary share

- a) Maintain record of pledge of share
- b) Obtain letter of the company pledging the shares with details of certificates
- c) Obtain certificates as per the covering letter of the company pledging the shares
- d) Obtain authorization of the shareholder for the pledge of certificates
- e) Verify the signature of the concerned shareholder
- f) Record "Rokka" of the pledged share certificate
- g) Release of the certificate upon subsequent advice to this effect from the financial institution pledging the shares.
- h) Release the certificates to the holder if release letter is received from the company pledging the shares after recording release of the database.

8. Documents required to be obtained in case of death of shareholder

- a) Original share certificates of the deceased shareholder
- b) A copy of the citizenship of the deceased shareholder

- c) A copy of death certificate
- d) A copy of relationship certificate
- e) Application letter of transferee
- f) A copy of citizenship of transferee
- g) Authority letters from other inheritors
- h) Send letter to NSR for information and Rokka
- i) Publish 35 days notice in the daily newspaper after getting all the required documents and confirming that the application is valid.
- j) Transfer the shares to the transferee after 35 days from the day of notice publication.
- k) Issue new certificates in the name of transferee
- l) Distribute the share certificates and recover notice publication charge from the concerned individuals (shareholders).

9. Documents required to be obtained in case of loss of share certificates:

- a) Application letter from the shareholder
- b) Signature verification of the applications
- c) Record “Rokka” of the lost share certificates in computer record and inform concerned individual (shareholders)
- d) Issue new share certificate after 35 days
- e) Publish 35 days notice in the daily newspaper
- f) Handover the certificates and recover notice publication charge from the concerned individual (shareholders)

10. Provide list of shareholders to the concerned parties as and when required

11. Provide certificate of share holding to the shareholders as and when required

12. Maintain/ update backup file of whole computer data on regular basis

13. Distribute undistributed share certificates, Dividend warrants & Bonus share certificates, if any, to the concerned shareholders.

14. Assist Bank in the conduction of Annual General meeting (AGM)

Capital market is the crucial element in the national economy. Its role in reinvigorating and boosting the economy activities in the economy holds significant. The strategic plan released by security board can, to a great extent, energize the investor's dealer by increasing investor's interest in it. Security market experiences both boom and bust soon after the beginning of securities trading through broker's members in the stock exchange floor. Though the market started to function quickly, boosting the prices of share to an unexpected level, it could not sustain.

There is an urgent need for proficient development of the market standard and information dissemination system focusing mainly on corporate financial disclosure practices and transparency, corporate accounting and auditing securities, and market regulation and corporate government. To implement the above, Security Board has a great responsibility as to reviewing and developing regulatory to make them relevant with the need of issuers, investors along with promoting efficient capital formation. (*New Business age, April 2003:44*)

SEBO states in its Annual Report for the fiscal year 2001/02 that it has made some attempts to address the issues through issuance of guidelines, directives and disclosure formats to the market participants, codes of conduct for the stockbroker, etc. It has also prepared a draft for the securities exchange act, which was presented to the ministry of Finance in 1998 to initiate the necessary legislative process. However, it is still to be enacted by the parliament. Even though SEBO has made attempts to solve the problems, they are still there. It cannot escape from its duty to explain the present state of the market and deficiencies existing in the system. Taking necessary support from the government it should take the required step to better the coordination of the market participants to develop a healthy capital market in the country. Moreover, it is important to discipline the market participants and educate them of their moral duty to comply and make others comply with the prevailing rules and regulation. Only this can create the

atmosphere where scandals like this one are not repeated. (*SEBO, Annual Report, Fiscal year 2007/08*)

There are many loopholes in our stock Exchange Act. Investors feel insecure here. A few years back there was a company called Nimrod pharmaceutical company that floated in shares, but where are they now? Similarly, it has been more than a year that Bansbar Leather age has allocated shares, but why did not the company list its shares in the market? It has been three years since Gorkhali Rubber Udhog hasn't called for its AGM. Government remained silent in all these cases. This is why the general public as well as the intuitional buyers is not feeling secure in investing in stock market. (*New Business Age, Jan 2000:25*)

2.2.2. Review of Previous Research Works

There are not many research works made as this topic i.e. Merchant Banking Practices Financial Institutions in Nepal. But all that previous research had not been success to analyze the true picture of Merchant Banking. The research work that Merchant Banking practices financial institutions in Nepal focuses in its performance for the development of Nepalese securities market. An attempt is made here to review some of the research, which have been submitted to in relation this research work.

Pradhan (2003) has conducted the research on the topic of "Merchant Banking in Nepal" submitted to faculty of management centre department for the partial fulfillment of M.B.S. In this study, Mr. Pradhan has pointed out the following major findings and recommendations;

Mr. Pradhan has listed the following major findings:

1. Analysis of institution and instrument wise public issue reveals that most of the issuing companies are banks and the issuing companies prefer to issue ordinary shares most of the time.

2. The comparative study of income from Merchant Banking of various companies reveals that the merchant banking income of CIT and NCML is increasing very steadily. On the other hand, NMB, though it has started performing merchant banking activities since 1997/98, is earning high income.
3. The test of consistency has concluded that the Merchant Banking income of NMB is more consistent, while that of NCML has more variation in income.
4. According to the most of the respondents, the Merchant Banking regulations provided in the above mention Acts are insufficient.
5. Most of the respondents said that the position of Capital Market is still underdeveloped in our country.
6. According to the most of the respondents, the reason behind more public issue of shares of banks and finance companies is the regulatory provision that has been made compulsory for banks and finance companies to go public.

Recommendations of Mr. Pradhan research are:

1. NRB is the governing body of financial intermediaries, so it should take continuous initiative to provide conducive environment to conduct the various Merchant Banking activities.
2. Merchant Bankers should develop the OTC market for selling and buying the stocks that are not listed with the country's stock exchanges.
3. NIDC Capital Markets Limited should draw its attention to increase Merchant Banking activities to be parallel with other activities.
4. CIT should not ignore other merchant banking activities like underwriting, shares registrar, consultancy, etc.
5. As the capital market activities starts growing, other Merchant Banking activities will also follow together.
6. They should make arrangements to introduce business and encourage savers outside Kathmandu valley to make them investors in the market.

Subedi (2005) has submitted research on the topic “Merchant Banking Practices of Financial Institutions”. In his research he has tried to point about some features and problems of merchant banking in Nepal. In his study, Mr. Subedi has pointed out following major findings and recommendations;

Mr. Subedi has listed the following major findings:

1. The term merchant banking has come to an emergence in Nepal since very few years before but the people are still not familiar with merchant banking and their functions.
2. It is found that merchant banking activities are concentrated on floating the public issues of securities.
3. Analysis of public issue shows that the public issues of securities are in increasing trend.
4. It has been found that major part of merchant banking income is through public issue management.
5. It has been found that merchant banking services generally taken by customer are public issue, underwriting of public issue, registrar to the share and portfolio management.
6. It has found that NMB performance is highly increasing then CIT and NCML.

Recommendations of Mr. Subedi research are:

1. Merchant bankers are diversifying their function to many activities.
2. They should try to focus or specialize their services on merchant banking function rather than making it only a part of their function.
3. There should be continuous co-ordination between different sectors which is necessary for the conducive environment of merchant banking.
4. Experts of the different merchant banking activities should also be invited from the other countries to train and develop the local manpower.

5. Political instability and uncertainty are the major problems for healthy development of merchant banking.

Kayal (2066) has conducted the research on the topic of “An Overview of Merchant Banking” in prasichhin, writes challenges ahead to merchant Bankers. According to Mr. Kayal, merchant bankers have to tap the opportunities lying ahead with the developing pace of the economy. These opportunities arise in the form of challenges before the merchant bankers to test their skills, expertise and efforts to attune their activities with the program of economic development of the country, adopt new instruments and innovative means of financing to meet the growing financial requirements of the corporate clients. Some of the areas of challenges, which have been explored on the basis of research, are classified as under:

1. Merchant bankers will have to conduct management of capital issues in a different fashion than what is being done at present. If small industries are to be provided the full benefit of their services of corporate counseling project counseling and loan syndication then besides distribution of their securities to the public and arranging long-term institutional or banking finance for them, it would be necessary for purchased equity of the company till the implementation of the project commencement of production and profitable working of the company when the issue may be treated as good for marketing to the general public, may be on premium, so as to make capital gains, on that. This course of action will benefit the small industries in many ways; firstly they will have the quick liquidity and secondly their project will be implemented under the skilled supervision and expert guidance of the merchant bankers. Besides, the investing public will be willing to purchase the issue at premium, having foreseen the dividend paying capacity of the only course, if adopted, would reduce cost of the issue to negligible extent.
2. The millions of small savers are unable to manage their funds in Nepal in both rural and urban areas. These are mainly the people from the middle class and

lower middle class. Merchant bankers must devise ways and means to provide services for portfolio management to these citizens. This may be by taking resource to encouraging the mutual funds.

3. In the international field, where public and private enterprises are entering to arise foreign currency resources, Nepalese counterparts have to depend upon the assistance of foreign merchant bankers. Nepalese merchant bankers therefore will have to sharpen their skills and attain the requisite in the field of international merchant banking.
4. If the planned objective of economic decentralization and rapid development of rural economy is to be achieved, merchant bankers will have to make experts efforts in the interest of the national economy by mobilizing the saving from the rural sector and creating avenues for its investment in rural in industry, trade and commerce in different shapes and different magnitude encouraging the local people to espouse entrepreneurship in industrial undertaking in higher degree so as to reduce their dependence on land farming or other means of rural avocations. Alternatively, this poses a big challenger for the merchant bankers to manage the surplus money available with the villagers by holding portfolio on their behalf or by channeling it directly to industry in the shape of fixed deposit, etc.
5. To tap the latest technology available internationally and procure the transfer of tours of foreign countries, organize meeting and conferences with the chamber of commerce and industry and other commercial, industrial and financial organizations so as to enthuse the foreigners to take interest in investment activity in Nepal. Merchant bankers, therefore, have to take latest information about the economic, social and political environment of our country to foreign and appraise the foreigners with the facilities and relaxations in various rules and regulations of the Government and the policy framework available for their benefit in case they choose to invest in Nepal or lend their technological expertise to Nepalese entrepreneur and/ or to collaborator in any other useful manner.

6. Increasing number of sick industries is the ever-growing threat for the industrial economy of the country. Merchant bankers have to find out ways and means for rehabilitating the sick industries and also devise the manner by which the running industry might be saved from going sick. They should closely associate with the units so as to small developing weakness in the management of the enterprise and suggest timely leading to sickness of the industrial unit “ Management by out” is one of the technique which has been successfully tried in European countries as well as in USA, to check sickness in industry. This device encourages the executive staff of the company to purchase the shareholding of the proprietors and promoters and run the factory on professional basis. Venture capital funds contribute substantially in this area of finance.
7. Attention is required to be gathered to the point that the banks and the financial institutions which are running the merchant banking division can think in terms of taking up the activity of providing acceptance credit and re-discounting facility to certain of European merchant bankers. This will help for creation of secondary market for commercial papers as well.
8. Public and private sector institutions engaged in trade, commerce and industry have many times surplus funds lying them awaiting opportunity outside. These funds should be tapped by the merchant bankers from time to time be mobilizing them to deficit areas in profitable return basis playing the interest rate games as is done in SWAP deals in international finance.

As per their research and analysis, they have pointed out following sectors are attractive for the Nepalese investors:

- Construction material
- Financial services
- Health and Pharmaceuticals
- Education and allied services and products
- Livestock (Diary, meat production, leather products etc.)

- Tourism
- Textile
- Office services (software development, media planning and advertisement)

After the advent of liberalization policy in Nepal, it went on a new direction on economic activities. As a result, such kind of services is available now in Nepal too. So, for those investors who really want to enjoy maximizing their wealth with liquidity and safety of investment, they can approach to the merchant banker and get rid of handling the day to day task of administrating portfolios. One can handover all the investment decisions to them enjoying better return from the surplus fund.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is the way to solve systematically about the research problem. Research methodology is general plan of how the researcher is going about answering the research questions we has set. The research worked undertaken following a systematic way, which is called the research methodology.

According to Oxford dictionary ‘Research’ has been defined as the systematic investigation. It is the study of materials, sources etc in order to establish facts and research conclusions. As per the Webster international dictionary, research is “a careful critical inquiry or examination in seeking facts and principles: diligent investigation in order to ascertain something. Research provides the pertinent information on a specific topic for the researcher. Research is common parlance that refers to a search for knowledge. Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology.

Hence, this chapter includes the research design, nature and sources of data, method of data collection, tools and techniques of data analysis and their limitations. The research methodology used in present study is briefly mentioned below.

3.2 Research Design

Research design is the plan, structure and strategy of investigation conceived to obtain answers to research questions. Generally, research study and propounds ways for

research viability. It is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. Thus it means an overall framework or plan for the collection and analysis of data.

Descriptive research design has been used in this study. It is helpful to describe the observed and perceived aspects in the area of merchant banking. This research is based on primary as well as secondary data. It deals with the merchant banking activities of the companies taken as a case study on the basis of available information. This research is more quantitative or analytical based as well as descriptive and exploratory.

3.3 Population and Sample

There are a lot of financial institutions like banks, finance companies, co-operatives, insurance companies etc in our country. Out of those entire companies, some Acts like Commercial Banks Act, Development Bank Act, Finance Companies Act, NIDC Act, CIT Act etc permits them to perform merchant banking activities. We have 21 commercial banks, 18 development banks, 5 gramina development banks, 125 finance companies, 1 Nepal industrial development corporation, 1 citizen investment trust in Nepal at the time of research work. Thus all those financial institutions that are allowed to perform merchant banking activities as per Act can be regarded as population of the study.

Since the concept of merchant banking is very new to our country only very few financial institutions are found to be performing specific merchant banking activities. Thus out of all those financial institutions three leading companies actively involved in merchant banking functions are taken as sample to conduct the research. The limitation of time and unavailability of the relevant data has forced me to make research on the few merchant banks. which are as follows;

1. NIDC Capital Market Limited (NCML)
2. Citizen Investment Trust (CIT)
3. Nepal Merchant Banking & Finance Limited (NMB)

3.4 Nature and Sources of Data

Qualitative as well as quantitative data are used in this research study. Both primary and secondary data have been employed here. Primary data have been collected during the study and the conversation with key information whenever they were met. To find out the problems of merchant banking sector, questionnaire and unstructured interview has been conducted with the staffs of concerned and other institutions. The data are collected from various sources as per their requirement. The detail of the sources of primary and secondary data is given below.

1. Primary Data

The primary data are those, which are collected fresh and for the first time and thus happen to be original in character. Logical aspect of the study is explored mainly through primary data, which is collected using questionnaire and observation survey. For this purpose 25 numbers of questionnaires is developed and distributed to various groups like executives and officers. Similarly observation of merchant banking activities of few institutions is conducted as far as possible. Formal and informal interviews with the concerned authorities were also helpful to ascertain reliable and accurate information regarding merchant banking.

2. Secondary Data

The secondary data are those which have already been collected by some one else and already been passed through the statistical process. The secondary data has been collected from published materials of different organizations such as Nepal Rastra Bank, Securities Exchange Board of Nepal, Financial Institutions and Citizen Investment Trust. Likewise various data and information are collected from the

economic journals, periodicals, bulletins, magazines, other published and unpublished reports and documents from various sources.

3.5 Data Collection Techniques

Much type of data is used in this research study. These data are collect from several sources such as primary and secondary. Both qualitative data are collected through traditional methods like field observation, and unstructured interview, structured questionnaire etc and quantitative data are collected through reports etc published from relevant banks. In the process of data collection the methods like telephone enquiry, formal and informal interview and questionnaire analysis are also adopted wherever necessary.

Both formal and informal interviews are conducted with high level personnel of various fields. As far as questionnaire method is concerned a set of questionnaire developed to meet the objective of the study. A number of questions were put up by means of 25 copies of questionnaire. Categorically, the questions raised through this means were of three types namely yes/no questions, multiple choice questions and free opinion questions. The questionnaires included five tick mark questions and five options questions and are distributed to the executive of various professions and field.

Table 3.1

Categories of Respondents of Various Field	Number	Percentages
Finance Companies	10	40%
Banks	4	16
Nepal Rastra Bank	1	4
Security Exchange Board of Nepal	2	8
ICAN	1	4
CIT	2	8
NIDC Capital Markets	2	8
Nepal Stock Exchange	1	4
NMB	2	8
Total	25	100

Secondary data are collected using methods like frequent visit of various Libraries, Organizations and Websites, Library of Shanker Dev Campus, Tribhuvan University, American Library, British Council, Indian Library and even Securities Exchange Board of Nepal, Nepal Rastra Bank helped as a sources for various useful books, journals, magazines and other published and unpublished reports.

Data are collected through annual reports, minutes, memorandum of association of several organizations and direct visit of Nepal Rastra Bank, Securities Exchange Board of Nepal, Banks, Finance Companies and other organizations. Concept paper made by few organizations, newsletters, leaflet, bulletin, and brochure also helped in collection of data for the study. Similarly methods like surfing in websites, and personal visit to bookshops like National Book Shop, Ratna Pustak Bhandar, and Bhrikuti Book Palace are also used for the collection of data and information.

3.6 Method of Data Analysis and Interpretation

The collected data through various instrument and sources have been edited, coded, processed, analyzed and tabulated using simple mathematical, financial and statistical tools like percentage analysis, ratio analysis, bar diagram, multiple bar diagram, arithmetic mean, standard deviation, coefficient of variation etc. Similarly data collected from questionnaires were in raw form. They were classified and tabulated in the required form and analyzed through tool using percentile. Major findings were based on the analysis and interpretation of data. The major data analysis tools used for the analysis and presentations of data are as follows.

1. Percentage Analysis

The percentage analysis is done to compare the two or more data for general information. One can use this function to establish a threshold of acceptance. It is used as a method to divide the opinions of the related sectors into two or more sectors.

2. Bar Diagram

As far as bar diagram is concerned, simple as well as multiple bar diagram are being used for the purpose of the study. Simple bar diagram are only one variable. It is used for the comparative study of two or more values of a single variable. On the other hand multiple bar diagram is used when two or more variables are to be compared at the same time.

3. Arithmetic Mean

Arithmetic mean is the sum of all the observations divided by the number of observations. The arithmetic mean is denoted by (\bar{X}) . It is computed as;

$$\text{In symbol, Arithmetic Mean } \bar{X} = \frac{\sum X}{N}$$

Where,

$\sum X$ = Sum of Total Value of Observations.

N = Number of Observations.

4. Standard Deviation

The standard deviation is the most important and widely used measure of dispersion or variability. The standard deviation is the square root of mean square deviations from the arithmetic mean and is denoted by S.D. or the standard deviation is also called root-mean square deviation. (R.M.S.D.)

Thus, for individual observation.

$$\text{Standard Deviation } \sigma = \sqrt{\frac{1}{N} \sum fX^2 - \bar{X}^2}$$

5. Coefficient of Variation

The coefficient of variation (C.V.) is the relative measure based on the standard deviation and is defined as the ratio of the standard deviation to the mean expressed in percentage

In Symbol, $C.V. = \frac{s}{\bar{X}} \times 100\%$

Where,

C.V. = Coefficient of Variation.

\bar{X} = Mean.

The ratio is called the coefficient of standard deviation. It is obvious that C.V. is independent of units. Hence the coefficient of variation is a suitable measure for comparing variability to two series (or set of data or distributions) with the same or different units. A series with smaller C.V. is said to be less variables (or more consistent or more homogeneous or more uniform or more stable) than other and the series with greater C.V. is said to be more variable (or less consistent or less homogeneous or less stable) than the other.

6. Correlation Co-efficient (r):

Correlation Co-efficient is defined as the association between the dependent variable and independent variable. It is a method of determining the relationship between these two variables. If the two variables are so related the change in the value of independent variable causes the change in the value of dependent variable then it is said to have correlation coefficient (Shrestha and Silwal, 2059:315). It can be calculated by using the method of Karl Person's Correlation Co-efficient, which is a widely used mathematical method of Correlation Co-efficient between two variables.

$$r = \frac{\sum dxdy - \frac{\sum dx \sum dy}{N}}{\sqrt{\sum dx^2 \frac{f}{N}} \times \sqrt{\sum dy^2 \frac{f}{N}}}$$

Interpretation:

If $r=0$, there is no relationship between variables.

If $r < 0$, there is negative relationship between the variables.

If $r > 0$, there is positive relationship between the variables.

If $r = + 1$, the relationship is perfectly positive.

If $r = -1$, the relationship is perfectly negative.

7. Probable Error:

The probable error of the Correlation Co-efficient is applicable for the measurement of reliability of the computed value of the Correlation Co-efficient 'r'. It is also denoted by P.E. it is calculated by the following formula.

$$\text{P.E.} = \frac{0.6745 \sqrt{1 - r^2}}{\sqrt{N}}$$

Where,

r= Correlation Co-efficient

n= Number of pairs of observation.

P. E. is used to interpret whether the calculated value of r is significant or not.

i. If $r < \text{P.E.}$, it is insignificant, i.e. there is no evidence of correlation.

ii. If $r > \text{P.E.}$, it is significant.

iii. $\text{P. E.} < r < 6 \text{ P.E.}$ nothing can be concluded.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

In the earlier chapters, the methodology followed has been discussed while presenting and analyzing of primary and secondary data. This chapter basically deals with the analysis and interpretation of data collected from different sources.

This chapter presents the data in a systematic format and interpretations to arrive at conclusion. Hence, data collection from different sources are analyzed and interpreted to make the research meaningful.

4.1 Introduction

Data presentation and analysis is the most essential part of the research work. The basic objective of this chapter is to analyze and elucidate the collected data following the conversion of unprocessed data to an understandable presentation. This chapter also presents the analysis and interpretation of the data related to merchant banking activities of financial institution.

Both primary as well as secondary data are used in the presentation and analysis of data in this section. Secondary data have been collected particularly from annual report of merchant bankers, securities exchange board of Nepal, websites and handouts prepared by the concerned companies. In this way, primary data collected from interview and questionnaire method have been analyzed to gather information on problems and remedies for merchant banking.

4.2 Presentation and Analysis of Secondary Data

The trend of establishing the financial institutions in Nepal is a high but merchant banks are still limited. Most of the merchant banking activities in Nepal are performed by finance companies, which are actively participated in merchant banking activities.

Study of Citizen Investment Trust is also included here though it is excluded from the list of finance companies because its performance as merchant banking activities is high. This section provides interpretation and analysis of secondary data. Thus this section is exclusively devoted for the analysis of activity performance of leading merchant bankers in the content of Nepal.

4.2.1 Public Issue Analysis

Public issue is the essential function of the merchant banking in Nepal. Merchant banking has includes a lot of activities as a functions. But in care of our country the function of merchant banking is regarded as issue management. Thus, the analysis starts from the analysis of public issue of securities.

Public issue is the important aspect for the development of Nepalese capital market. For the development of commerce, industry and the economy as a whole, development of capital market is must and development of capital market is impossible without the public issue. As the public issue goes on increasing the role and important of merchant banks also increasing the role and importance of merchant banks also increase for the reason that merchant bankers manage public issue in professional and systematic way. Tabular as well as graphical presentations of public issue in different fiscal years are presented in table 4.1 and figure 4.1 as follows;

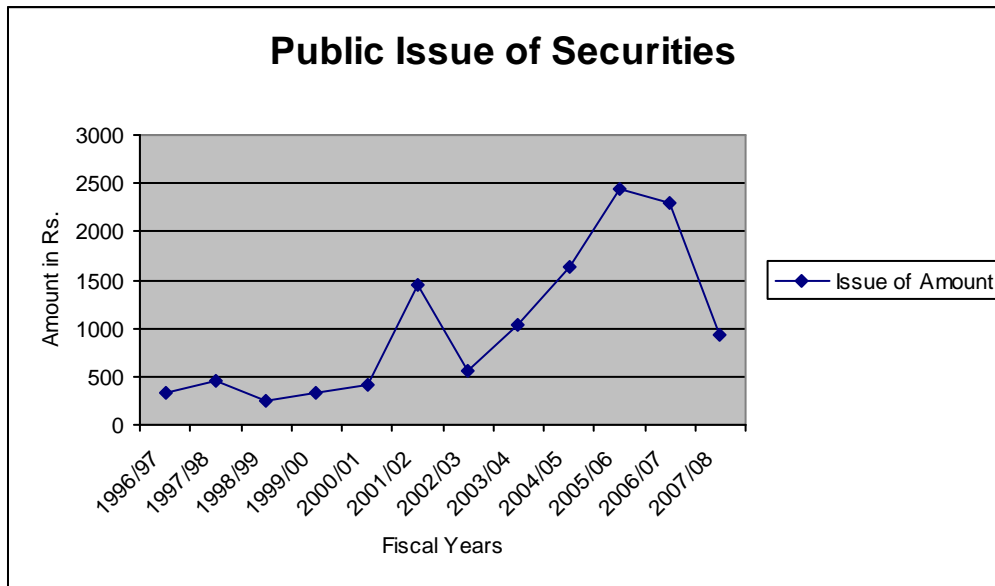
Table 4.1
Public Issue of Securities

(Rs. in Million)

Fiscal Year	No. of Issue	Issue Amount
1996/97	5	333.2
1997/98	12	462.36
1998/99	5	258
1999/00	6	326.86
2000/01	9	410.49
2001/02	12	1441.33
2002/03	18	556.54
2003/04	14	1027.5
2004/05	14	1626.82
2005/06	29	2443.28
2006/07	34	2295
2007/08	32	937.27
Total	190	12118.17

Source: SEBO/Annual Report 2007/08

Figure 4.1



From the above table and figure shows that there have been 190 public issues of different companies amounting Rs. 12118.17 million from 1999/97 to 2007/08. Out of 190 issues, 5 issues each were in fiscal year 1996/97 and 1998/99, which were the smallest number

during the fiscal year 1996/97 to 2007/08. Show the fiscal year 2007/08 were issued 32 different issuing company is Rs. 937.27 million similarly issues amounting to Rs. 1441.33 million in 2001/02. Slowed down to Rs. 254.21 million in the fiscal year 2002/03. Which rose slowly later on and again slowed down to 1027.5 million in 2003/04? However the issue of share was Rs. 2446.58 million in the fiscal year 2006/07 which was the highest issued during the twelve period.

4.2.2 Institution-wise and Instrument-wise Analysis of Public Issue

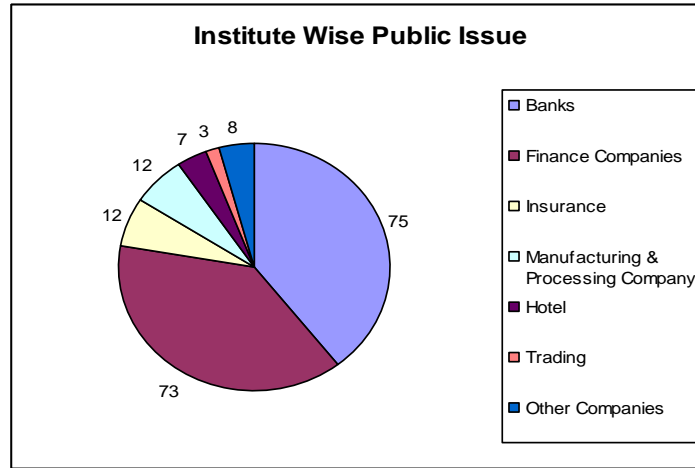
The public issues have been conducted to find out the sectors which are benefited through merchant banking activities in the process of public issue of securities. Similarly instrument wise public issue analysis helps to find out the instruments that have been during the issue of securities. The institution wise analysis of public issues is shows in the following table 4.2

Table 4.2
Institute Wise Public Issue in % (1996/97 to 2007/08)

Group	No. of Issue	Amount of Issue (Rs. in Million)	Issue in %
Banks	75	8664.03	71.5
Finance Companies	73	1897.29	15.66
Insurance	12	372.1	3.07
Manufacturing & Processing Company	12	250.2	2.06
Hotel	7	135	1.11
Trading	3	796.45	6.57
Other Companies	8	3.01	0.025
Total	190	12118.17	100

Source: SEBO Annual Report 2007/08

Chart 4.1



The above table 4.2 and chart 4.1 shows the institute-wise public issue from 1996/97 to 2007/08. From the table it has been clear that most of the public issues during the period of banks which is 71.5% which is as compared to 15.66% of finance companies, 2.06% of insurance companies, 3.07% of manufacturing and processing company, 6.65% of hotel, 1.11% of trading companies and 0.025% of other companies. However, looking at the no. of issues, the no. of issues by banks are only 75 in comparison to the finance companies, which is 73. But the amount of issuing are vast different which is 71.5% and 15.66%. In this way, the no. of issues by insurance companies, manufacturing and processing companies, hotels, trading and other companies are 12,12,7,6 and 8 respectively. The detail of instrument wise public issue is presented in the table 4.3. Which are as follows.

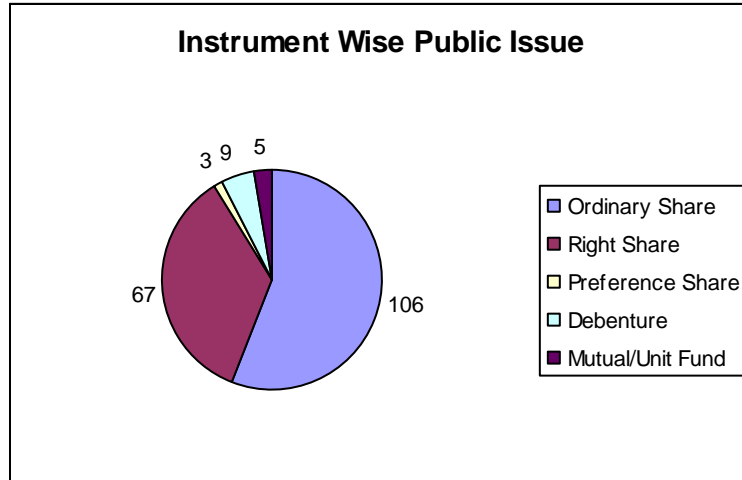
Table 4.3
Instrument Wise Public Issue

(Rs. in Million)

Instrument	No. of Issue	Amount of Issue (Rs.)	Issue in %
Ordinary Share	106	4359.02	35.97
Right Share	67	4893.78	40.38
Preference Share	3	620	5.11
Debenture	9	2153	17.77
Mutual/Unit Fund	5	110.37	0.91
Total	190	12118.17	100

Source: SEBO Annual Report 2007/08

Chart 4.2



From the above table 4.3 and chart 4.2 shows that the major sources of finance for most of the corporate bodies in Nepal are ordinary share. Out of 190 public issues during the year from 1996/97 to 2007/08, 36.97% issues were ordinary share, which contributed to raise the capital is Rs. 4359.02 million. The number of issues through ordinary shares as 106. Right shares were issued of 67 companies amounting Rs. 4893.78 million, which covered 40.38% of total issue. The preference share, debenture and mutual fund contributed to the capital by 5.11%, 17.77% and 0.91% amounting Rs. 620, 2153 and 110.37 million respectively.

4.2.3 Activity Performance of Merchant Bankers

A. NIDC Capital Market Limited (NCML)

NIDC capital markets limited is the first merchant banker in Nepal. It was established in 2049 B.S. as a merchant banker. When established, it was only merchant banker with an objective to render the merchant banking services and it also provides various services to its clients as a merchant banker. The activities of NIDC capital market is to Act as an issue and sales manager, to provide advice for it and arrange underwriting for public issues to encourage public participation in the ownership of industrial and commercial institution, collecting medium or long term capital from the public for the establishment and the expansion of industry. Besides these activities, it also has an active role to

provide liquidity to securities as a market maker involving itself actively in buying and selling of securities in the secondary market.

a) Issue Management

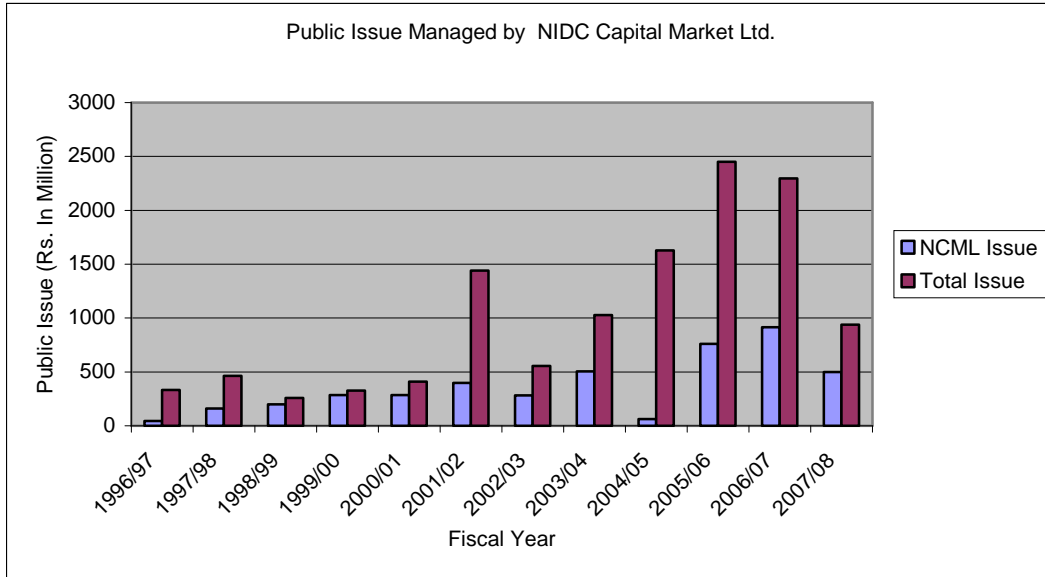
NIDC capital market has handled public issue of a lot of companies. During the period of twelve years from 1996/97 to 2007/08, it has managed a lot issues ordinary shares, debenture, preference share and right share of various issuing companies. The brief detail of public issue handled by NIDC capital market limited is shown in the table 4.4.

Table 4.4
Public Issue Managed by NIDC Capital Market Limited
(Rs. in Million)

Fiscal Year	Issued By NIDC Capital Market Ltd.		Total Issue		% of Issue by NCML
	No. of Issues	Issue Amount (Rs.)	No. of Issues	Issue Amount (Rs.)	
1996/97	1	45	5	332.2	13.55
1997/98	4	159	12	462.36	34.39
1998/99	1	200	5	258	77.52
1999/00	4	285.20	6	326.86	87.25
2000/01	4	284	9	410.49	69.16
2001/02	2	397.46	12	1441.33	27.58
2002/03	2	283.24	18	556.54	50.89
2003/04	7	506	14	1027.5	49.25
2004/05	4	63.2	14	1626.82	3.88
2005/06	2	760.87	29	2449.28	37.74
2006/07	11	914	34	2295	39.83
2007/08	8	500.48	32	937.27	53.39
Total	50	4398.48	190	12118.17	36.29

Sources: SEBO Annual Report

Figure 4.4



From the above table 4.4, it is clear that it has handled public issues of 50 companies amounting Rs. 4398.48 million, which is 36.29% of total issue. It has managed issue of 45 million of 1 companies in fiscal year 1996/97 which is 30.55% of total issue of that fiscal year. Similarly it has managed 34.94%, 77.52%, 84.25%, 69.16%, 27.58%, 50.89%, 49.25%, 3.88%, 31.14%, 39.83% and 53.39% in the fiscal year 1997/98, 1998/99, 1999/00, 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 respectively. The above figure shows the same amount issued by NIDC capital market during the all fiscal years.

b) Underwriting

Underwriting is the commitment or guarantee to take up all shares/debentures which will not be subscribed by the public in general and it eliminates the risk arising from uncertainty of public response to new issue. Out of issue handled by NIDC capital markets limited, it has underwritten public issue of 8 companies, which is shown in table

4.5.

Table 4.5
Underwriting of Public Issue by NIDC Capital Market Limited

S. No.	Fiscal Year	Name of the Issuing Company
1	1997/98	Premier Insurance Company Limited
2	1998/99	Everest Insurance Company Limited
3	1999/00	Bank of Kathmandu Limited
4	2000/01	Taragoan Regency Hotels Limited
5	2001/02	Nepal Industrial & Commercial Bank Limited
6	2002/03	Oriental Hotels Limited (Radisson)
7	2003/04	Himalayan Distillery Limited
8	2004/05	National Hydro Power Co. Limited

Source: Personal Interview with the High Level Employee of NIDC Capital Market Ltd.

Thus, NIDC capital markets ltd. has underwritten public issue of two companies in fiscal year 1997/98 and 2002/03 and one company in each year in fiscal year 1999/00, 2001/02, 2003/04 and 2005/06.

c) Registrar to the Share

NIDC capital markets also provide service of registrar to the share service with an objective to provide help in the further activities of public limited companies. Its main objectives is to maintain the record of shareholders to fulfill the name transferring process and to assist in holding the preliminary and Annual General Meeting on behalf of those companies. Following are the list of companies to which, NIDC capital markets limited provides services of registrar to share issue.

1. Nepal Lever Limited
2. Nepal Industrial and Commercial Bank Limited
3. Life Insurance Company Limited
4. Bhrikuti Paper Industry Limited
5. Nepal Film Development Board
6. Orientals Hotels Limited (Hotel Radisson)

d) Mutual Fund

Mutual funds is a group saving scheme whereby it collects the idle money of the various sectors of society and invest in different area specially on blue chip companies shares and bonds on the principle of diversification. So, the NIDC capital market has also started NCM mutual fund from 1993 with approval of Securities Exchange Board of Nepal. The total amount of the mutual fund was Rs. 100.00 million. It was an open-ended fund with a par value of Rs. 10 per unit.

The NCM first mutual fund 1993 which the SEBO approved in the fiscal year 1993/94 had terminated by the end of the fiscal year 2000/01. The fund at the time of its termination offered two options to its participants, either to refund or to participate in another new scheme to be operated and manage by NIDC Capital Markets Ltd. in the name of “NCM Mutual Fund 2059”. SEBO approved this new mutual fund on Aug 9, 2002. In this fiscal year 2007/08 total invested Rs. 19 crore 47 lakh and net asset value 48 crore 89 lakh has been reach. Total no. of unit holder of the fund by the end of the fiscal year 2007/08 was 2950 comprising 2930 individual and 20 institution. The per unit market prize of fund by the end of the fiscal year in the 2007/08 was Rs. 24. The performance of the fund over the year is presented in Table 4.6.

Table 4.6
Performance of “NCM Mutual Fund 2059”

S. No.	Particulars	2004/05	2005/06	2006/07	2007/08
1	Total Investment	15.77	21.07	19.83	19.48
	(a) Investment in Share/Debenture	12.62	18.35	8.6	9.07
	(b) Government Bonds	1.00	1.00	1.00	1.00
	(c) Bank Deposit	1.65	1.37	9.33	8.19
2	Net income	1.15	1.39	2.31	4.77
	a) Dividend in share	0.19	0.28	0.34	0.33
	b) Interest on Government Bond/debenture	0.08	0.08	0.08	0.08
	c) Bank Interest	0.04	0.05	0.39	1.07
	d) Income from Sale of Share	0.84	0.97	1.5	3.29
3	Net Asset Value	14.49	18.91	31.4	48.89
4	Outstanding Units (in 000)	10,000	10,000	10,000	10,000
5	Net Asset Value per Unit	14.49	18.91	31.4	48.89
6	Per Unit Market Price	10	11	-	24
7	No. of Unit Holder	2559	2481	2417	1950
	(a) Institutional	20	20	20	20
	(b) Individual	2539	2461	2397	2930
8	Dividend (%)	5	5	8	15

Source: SEBO Annual Report 2007/08

e) Research and Development

NIDC Capital Market has also worked as a research and development. It helps to the investors for investment of their saving and they know the financial situation of listed companies. It has improved the service by analyzing in depth the economic situation of listed companies and has also started to prepare macro economic sector analysis; whereby sectors of investment possibilities are researched. These sectors include textile with analysis on the areas of Cotton Thread, Garments and Knitwear as well as Tourism.

f) Portfolio Management

The company had managed portfolio of its customer with an objective to provide attractive returns from the deposited amount by buying and selling of securities in fiscal year 1993/94 but it had leave in next fiscal years due to some problems.

B) Citizen Investment Trust (CIT)

Citizen Investment Trust (CIT) was established in 1990 under Citizen Investment trust Act, and with a view to expand investment opportunities by encouraging general public to save capital and to bring the dynamism in the development of capital markets. It is basically the saving and investment institution and it statutorily derives a special status and privileges, which adds up its strength to emerge as a national institution reaching wider spectrum of the population CIT at the same time, achieves a higher professionalism in the financial intermediation and has an ability to provide varied capital market services.

It has a great role in the function of saving mobilization, investment financing and capital market services. Under capital market services, it provides trustee services and corporate finance services. And merchant banking services consists under corporate finance services. Out of various merchant banking services, the services provided by CIT are as follows.

a. Public Issue Management

CIT has been actively participating in management of public issue of securities from its establishment. Public issue is one of the major function of merchant banking Citizen Investment Trust has managed public issue of ordinary shares, debentures, right shares and preference shares of various companies, such as finance companies, banks, manufacturing industries and others. It has introduced unit scheme of its own institution. CIT has issued preference share and right share of Necon Air Ltd. and it has also issued right share of Bottlers Nepal Ltd., Nepal Bank Ltd., NIDC Capital Market Ltd. CIT also worked as co-issue manager in the share issue of Neco Insurance Limited and Nepal Development Bank with Rastriya Banijya Bank and Nepal Merchant Banking and Finance Limited respectively. The detail of the issue is given in the appendix and the no. and issue amount of the issue amount of the issues managed by CIT is shown in table 4.7 and figure 4.3 is given below.

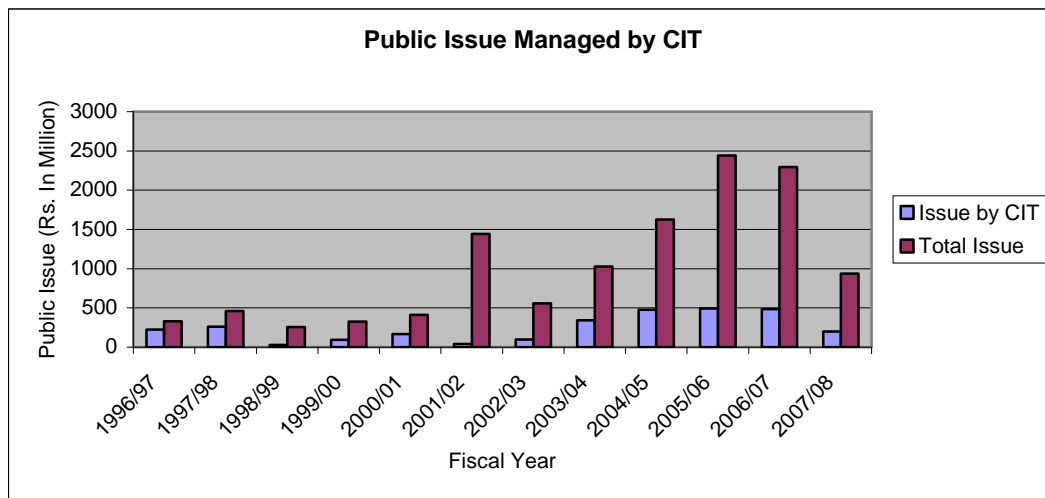
Table 4.7
Public Issue Managed by CIT

(Rs. in Million)

Fiscal Year	Issue by CIT		Total Issue		% of Issue by CIT
	No. of Issues	Issue Amount (Rs)	No. of Issues	Issue Amount (Rs)	
1996/97	1	225.2	5	332.2	8.3
1997/98	2	261.95	12	462.36	9.65
1998/99	1	28	5	258	1.03
1999/00	2	92.86	6	326.86	3.42
2000/01	2	167.21	9	410.49	6.16
2001/02	1	40	12	1441.33	1.47
2002/03	4	99.3	18	556.54	3.66
2003/04	3	342.5	14	1027.5	12.62
2004/05	3	478	14	1626.82	17.63
2005/06	5	494.9	29	2443.28	18.24
2006/07	2	484	34	2295	17.66
2007/08	4	200.40	32	937.27	21.38
Total	30	2914.32	190	12118.17	24.09

Source: Annual Report CIT

Figure 4.3



The above table 4.7 and figure 4.3 shows the performance of CIT as an issue management of various companies during the fiscal year from 1996/97 to 2007/08. During the twelve years period, the company has managed to raise Rs. 2914.32 million capitals from 30 different issuing companies that are 24.09% of aggregate public issue.

The management of public issue was greatest in the fiscal year 2005/06. It has contributed to raise Rs. 494.9 of capital. CIT has contributed as issue manager in more than 24% of total public issue and it is also shown in the figure.

b. Underwriting and Syndication of Underwriting Public Issue

Citizen Investment Trust also provided the service of underwriting as well as syndication of underwriting public issue of various companies, which is mention in table 4.8

Table 4.8
Underwriting of Public Issue by CIT

(Rs. in Million)

S. No.	Fiscal Year	Issue Company	No. of Shares	Issue Amount of Underwriting (in Rs.)	Issue Manager
1	1993/94	Necon Air Limited	14000	14,00,000	CIT
2	1994/95	Universal Finance & Capital Markets Limited	10000	10,00,000	CIT
3	1995/96	Samjhana Finance Limited	10000	10,00,000	RBB
4	1996/97	Bank of Kathmandu	50000	50,00,000	NCML
5	1997/98	NECO Insurance	10000	10,00,000	CIT
6	1998/99	Alliance Insurance	10000	10,00,000	CIT
7	1999/2000	Sagarmatha Insurance	15000	15,00,000	National Finance
8	2000/01	NIC Bank	20000	20,00,000	NCML
9	2001/02	Everest Bank Limited	50000	50,00,000	NCML
10	2001/02	Nepal Development Bank Limited	70000	70,00,000	CIT, NMB
11	2002/03	Development Credit Bank Limited	35000	35,00,000	NMB
12	2003/04	N.B. Insurance	100000	10,00,000	CIT

Source: Personal Interview with the high level employee of CIT

From the table 4.8 it is clear that CIT has underwritten public issue of twelve companies from fiscal year 1993/94 to 2004/05, out of which it has syndicated underwriting of five companies. The amount of underwriting was ranging from Rs. 10 Lakh to 20 Crores. Out

of twelve underwriting three companies naming Samjhana Finance Limited, Alliance Insurance and Universal Finance & Capital Markets Limited developed and company has to accept certain portion of shares as per agreement. CIT has also underwritten ordinary share of Nepal Credit and Commerce Bank Limited, which has failed due to some problems. CIT is also in pipeline to underwrite ordinary share of Lumbani Bank Limited, and secured debenture of Hotel Blue Star. Underwriting process has unsuccessful due to competitive market. Issuing company did not want to pay additional charge by underwriting because securities are easily sells in the market.

c. Registrar to Share

CIT as one of the leading merchant bankers is also provides service to registrar to share to Alliance Company Limited, Lumbani Bank Limited, Butawal Power Company Limited and Chilime Hydropower Co. Limited.

d. Consultancy Service

CIT also provides consultancy service in the area of capital market. Such services are available for designing capital structure, pricing of securities, corporate Acts like merger, acquisition, privatization and other related activities.

C) Nepal Merchant Banking and Finance Limited (NMB)

Nepal Merchant Banking and Finance Limited were established in December 1996. NMB has been establishing in the competitive Nepalese financial market. The company is trying to become a leader in the market for financial services and merchant banking activities. NMB is involved in both primary and secondary market. It also client under merchant banking activities it performs various activities.

a. Public Issue Management

NMB has successfully managed initial public offering (IPO) of both common and preference shares as lead managers of different companies. The table no. 10 shows the detail of public issue handled by NMB.

Table 4.9
Public Issue Managed by NMB

Fiscal Year	Issuing Company	Type of Issue	Issue Amount (Rs.)	Issued by NMB	Total Issue Amount (Rs.)	% of Issue by NMB
2000/01	Siddhartha Finance Ltd.	Ordinary Share	80.00	128.00	410.49	31.18
	Nepal Development Bank Ltd. (Issue Mgmt with CIT)	Ordinary Share	48.00			
2001/02	Development Credit Bank Limited	Ordinary Share	48.00	445.87	1441.33	30.93
	Nepal SBI Bank Ltd.	Right Share	287.87			
	United Finance Limited	Ordinary Share	24.00			
	Nepal Life Insurance Company Ltd.	Ordinary Share	50.00			
	Himalayan Bank Ltd.	Debenture	36.00			
2002/03	Machhapuchhre Bank Ltd.	Ordinary Share	165.00	215	556.54	9.59
	Butwal Finance Limited	Ordinary Share	20.00			
	Standard Finance Ltd.	Ordinary Share	30.00			
2003/04	Cosmic Merchant Bank & Finance Ltd.	Ordinary Share	24.00	99.00	1027.50	4.42
	Fewa Finance Co. Ltd.	Ordinary Share	8.00			
	Prudential Insurance Co. Ltd.	Ordinary Share	20.00			
	Chimek Bikash Bank	Ordinary Share	3.00			

	Kist Merchant Banking & Finance Ltd.	Ordinary Share	20.00			
	World State Banking & Finance Ltd	Ordinary Share	24.00			
2004/05	Birgung Finance Ltd.	Ordinary Share	24.00	290.41	1626.82	12.96
	Deprose Development Bank Ltd.	Ordinary Share	3.48			
	Nirahan Uthan Bank Ltd.	Right Share	15.00			
	Nepal SBI Bank	Right Share	215.93			
	Everest Finance Ltd.	Ordinary Share	8.00			
	Development Credit Bank Ltd.	Right Share	24.00			
2005/06	Kist Merchant Banking and Finance	Right Share	50	352.5	2443.28	14.42
	Gandaki Development Financial Institution Ltd.	Ordinary Share	15			
	Fewa Finance Ltd.	Right Share	30			
	Om Finance Ltd.	Right Share	30			
	Siddhartha Bikash Bank	Ordinary Share	20			
	IME Financial Institution	Ordinary Share	17.5			
	Shikar Insurance Company	Ordinary Share	25			
	Machharepuchare Bank Ltd.	Right Share	165			
2006/07	Pokhara Finance Ltd.	Right Share	20	330.5	2295	14.4
	Sanima Bikash Bank	Ordinary Share	96			
	Bageshowari Bikash Bank	Ordinary Share	9			
	Alpic Everest Finance Ltd.	Right Share	20			
	Chhimek Bikash Bank	Right Share	20			
	Gorkha Development Bank	Ordinary Share	96			
	Emporial Financial Institution Ltd.	Ordinary Share	19.6			
2007/08	Lumbani General Finance Co. Ltd.	Ordinary Share	25			
	Siddhartha Insurance Co. Ltd	Ordinary	25			

Total		Share		476.46	937.27	50.83
	Infrastructure Development Bank	Ordinary Share	24			
	Kuber Merchant Banking and Finance Co. Ltd.	Ordinary Share	22.5			
	Prabhu Finance Co. Ltd.	Ordinary Share	48			
	Cleen Enargy Development Bank	Ordinary Share	96			
	Reliable Finance Ltd.	Ordinary Share	24.8			
	IME Financial Institution	Right Share	5			
	Development Credit Bank Ltd.	Right Share	80.6			
	Siddhartha Bank Ltd.	Right Share	13.8			
	Laxmi Bank Ltd.	Right Share	18.30			
	I.F.C. Financial Institute Ltd.	Right Share	22.48			
	Shree Investment Financial Co. Ltd.	Right Share	1.68			
	Narayani Finance Ltd.	Right Share	15			
	Machhapuchare Bank Ltd.	Right Share	49.30			
	Gandaki Bikash Bank	Right Share	5			
			2337.74	12118.17	19.29	

Source: SEBO Annual Report 2007/08

The above table 4.9 shows that Nepal Merchant Banking and finance Limited has provided service of issue management of 56 companies during 8 years from 2001/02 to 2007/08. It has issued right share of 21 companies 1 is debenture and 33 ordinary share of various companies. Public issue of some companies were manage by NMB in co-management with CIT. It has managed 31.18%, 30.93%, 9.59%, 4.42%, 12.96%, 14.42%, 14.4% and 50.53% of issue in fiscal year 2000/01, 2001/02, 2002/03, 2003/04, 2004/04, 2004/05, 2005/06, 2006/07, 2007/08 respectively. NMB has contributed to capital be Rs. 2337.74 which covered 19.25 percent of total issue.

b. Underwriting of Public Issue

Public issue underwritten by Nepal Merchant Banking and Finance Limited are shown in the table 4.10.

Table 4.10
Underwriting of Public Issue by NMB

S. NO.	Fiscal Year	Issuing Company	No. of Share	Amount of Underwriting	Issue Manager
1	2000/01	Development Bank Ltd.	70,000	70,00,000,00	NMB ,CIT
2	2001/02	Development Credit Bank Ltd.	70,000	70,00,000,00	NMB
3	2003/04	Prudential Insurance Co. Ltd.	2,00,000	2,00,00,000,00	NMB
4	2005/06	Shikhar Insurance Co. Ltd.	2,50,000	2,50,00,000,00	NMB,NIDC
5	2007/08	Siddhartha Insurance Co. Ltd	2,50,000	2,50,00,000,00	NMB

Source: Present Interview with High Level Employee of NMB

c. Corporate Counseling

Nepal merchant banking and finance limited is also involved in providing necessary project evaluation for NMB itself and its clients under corporate finance division. The service of this division ranges from project analysis to corporate mergers and acquisitions to debt finance and equity finance. It is also involved in consortium financing and project appraisal. This department has prepared detailed feasibility study report of a commercial bank and industrial ventures including for a joint venture project. Further, it has played key role in arranging consortium financing. Further, this department also played an important role in the preparation of documentation for the privatization bid of Nepal Tea Development Corporation.

d. Registrar to Share Issue

It also provides share registrar functions to business and corporations. NMB was actively involved in the management of share registrar of two important commercial banks NABIL Bank Limited, and Standard Chartered Bank Limited. At present it provides this service to NABIL Bank Limited, Siddhartha Bank Limited, Siddhartha Bikash Bank, Gandaki Development Finance Institution, Everest Finance, Chhimak Bikash Bank.

4.2.4 Analysis of Income from Merchant Banking

Income is lifeblood of the company. Income is very essential aspect for each and every company. Generation of income is the major objective of each and every company without which sustain and growth of a company is out of imagination. Income from each and every activity affects the performance of the company. Thus, in this section, it has been tried to analyze and find out the income from merchant banking activities to the merchant bankers.

A. Merchant Banking Income of NIDC Capital Market Ltd.

The analysis of merchant banking income of NIDC Capital Market is various fiscal years is shown in the table 4.11

Table 4.11
Statement of Income of NIDC Capital Market Ltd.

(Rs. in Million)

Fiscal Year	Merchant Banking Income	Total Income	% of Income from Merchant Banking Income to Total Income
1996/97	1.295	9.034	14.33
1997/98	1.695	10.532	16.09
1998/99	0.884	2.695	32.80
1999/00	2.163	12.644	17.11
2000/01	0.782	21.823	3.58
2001/02	2.021	34.275	5.90
2002/03	4.464	50.953	8.76

2003/04	3.435	58.250	5.90
2004/05	3.241	54.148	5.98
2005/06	10.91	69.614	15.67
2006/07	9.24	90.80	10.18
2007/08	1.798	83.785	2.15

Source: Annual Report of NIDC Capital Market Ltd.

From the above table, it is found that the total income from merchant banking is not found to be constant. Every fiscal years merchant banking income and total income is volatile. Similarly the activity has contributed to total income by 14.33%, 16.09%, 32.80%, 17.11%, 3.58%, 5.90%, 8.76%, 5.90%, 5.98%, 15.67%, 10.18% AND 2.15% in the fiscal year 1996/97, 1997/98, 1998/99, 1999/00, 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 respectively. The table also shows that the merchant banking income of NIDC capital markets Ltd. is Zigzag and net being able to increase simultaneously with the increase in total income. It is known that most of the merchant banking income of NIDC capital markets Ltd. is from issue management and than from underwriting and share registrar. The company is found to have been generating income from portfolio management in the fiscal year 1996/97 and later on it did not involved in portfolio management and thus the company also did not earn from this activity. Similarly, NIDC capital markets is earning from sole of government bonds since the fiscal year 1996/97.

Figure 4.4

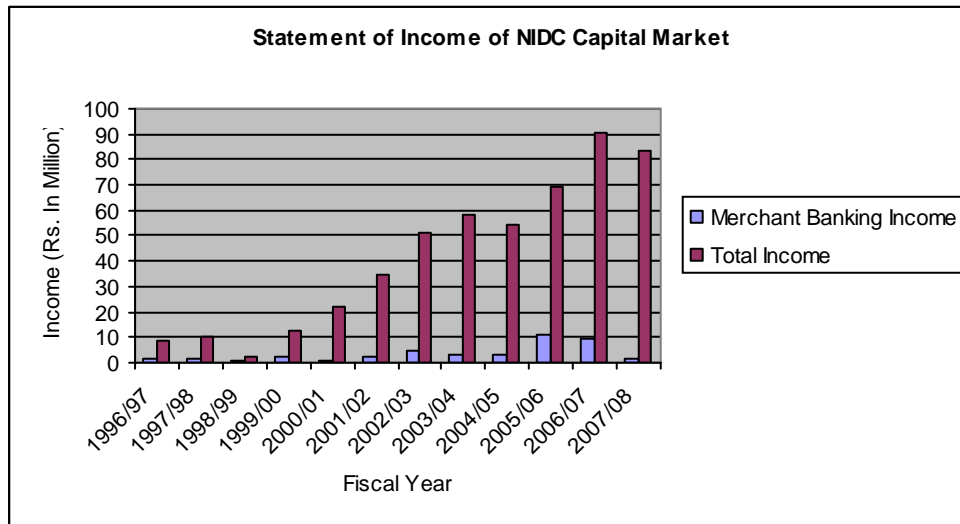
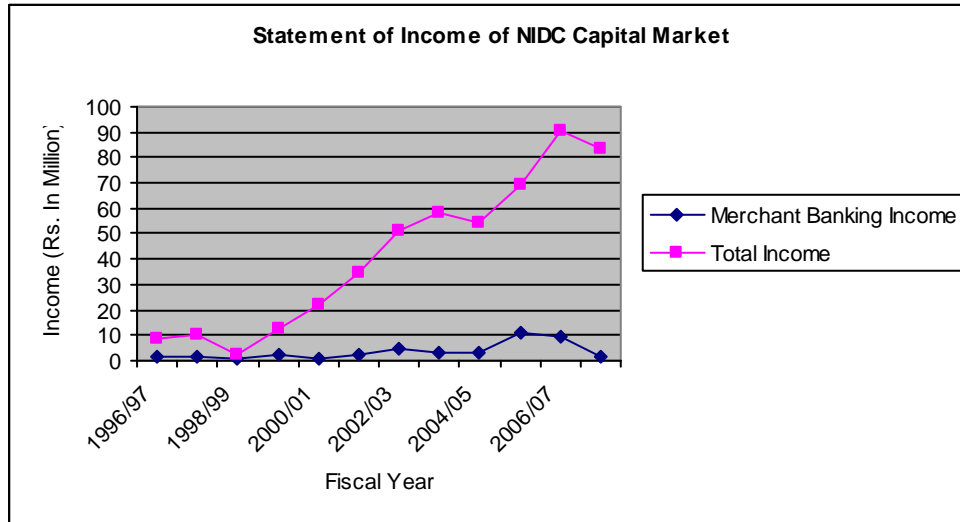


Figure 4.5



From the above figure 4.4 and 4.5 shows that NIDC capital market limited earning total income is increasing trend in first two years but comparatively the income from merchant banking does not seem to be in increasing trend. The total income of NIDC Capital Market Ltd. is relatively high in the fiscal year from 1995/96 to 2000/01 but the income from merchant banking is relatively low. Last three years total income is relatively high as well as merchant banking due to the various financial activities. But looking only to the merchant banking income in different fiscal years, the trend seems to be increasing expect fiscal year 2004/05. Fiscal year 2004/05 merchant banking income is very low as compared to the previous years due to the decreased in underwriting of issue.

B. Merchant Banking Income of Citizen Investment Trust

Citizen Investment Trust is one of the leading merchant bankers of Nepal. It is earning income from various merchant banking activities like commission of share issue management, underwriting, registrar to share issue, sales of government bonds, consultancy services etc are the major income sources of merchant banking citizen investment trust is capable for providing various merchant banking services to its

customers. Trust from the fiscal year 1993/94 to 2004/05 is presented in the following table 4.12

Table 4.12
Statement of Income of Citizen Investment Trust

(Rs. in Million)

Fiscal Year	Merchant Banking Income (Rs.)	Total Income(Rs.)	% of Income from Merchant Banking Income to Total Income
1996/97	1.085	4.816	22.53
1997/98	1.439	22.873	6.29
1998/99	4.561	7.520	60.65
1999/00	3.121	7.517	41.52
2000/01	1.292	7.720	16.74
2001/02	1.434	10.552	13.59
2002/03	1.274	14.395	8.85
2003/04	2.165	14.673	14.75
2004/05	3.189	18.269	17.46
2005/06	3.483	21.20	16.43
2006/07	5.748	31.623	18.18
2007/08	4.260	52.349	8.14

Source: Annual Report of CIT.

From the above income statement of citizen investment trust in fiscal year 1996/97 to 2007/08. Merchant banking income of citizen investment trust in fiscal year 1996/97 is Rs. 1.085 million while it has increased to Rs. 1.439 million in fiscal year 1997/98 and Rs. 4.561 million in fiscal year 1998/99 which covered 60.65% of total income. Merchant banking income of fiscal year 2000/01 to 2002/03 was showed very low as compared with other years and fiscal year 2003/04 to 2006/07; merchant banking income gradually increased up to highest income is Rs. 5.748 million which covered 18.18% of total income. Merchant banking income of last year was 4.20 million which covered 8.14% of total income. It has earned its maximum amount of merchant banking income in fiscal year 2006/07 which was 18.18% of total income. The merchant banking income amounting Rs. 4.561 million in fiscal year 1998/99 was also second highest which

covered 60.65% of total income. Looking at the twelve fiscal years from 1996/97 to 2007/08, the average merchant banking income is more than 15%.

Figure 4.6

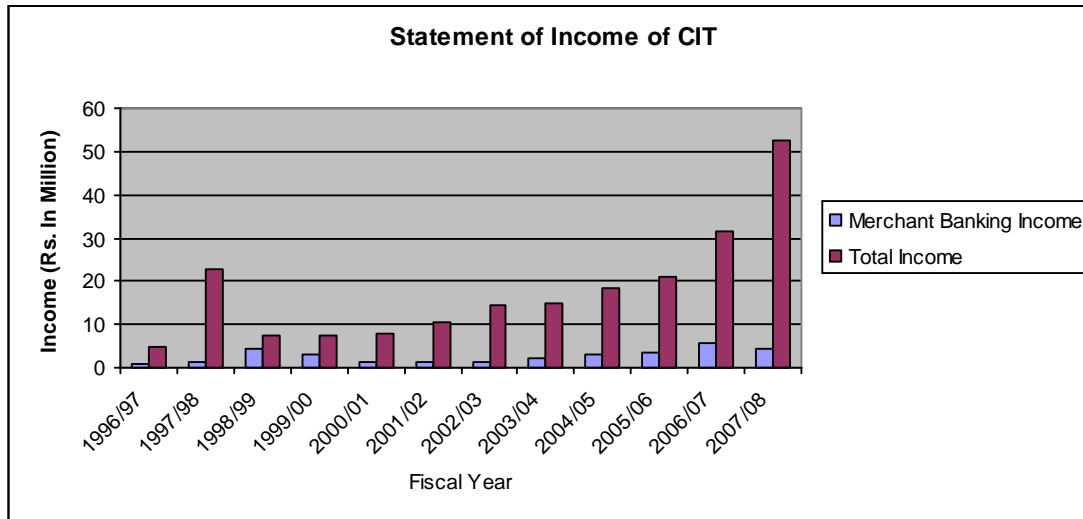
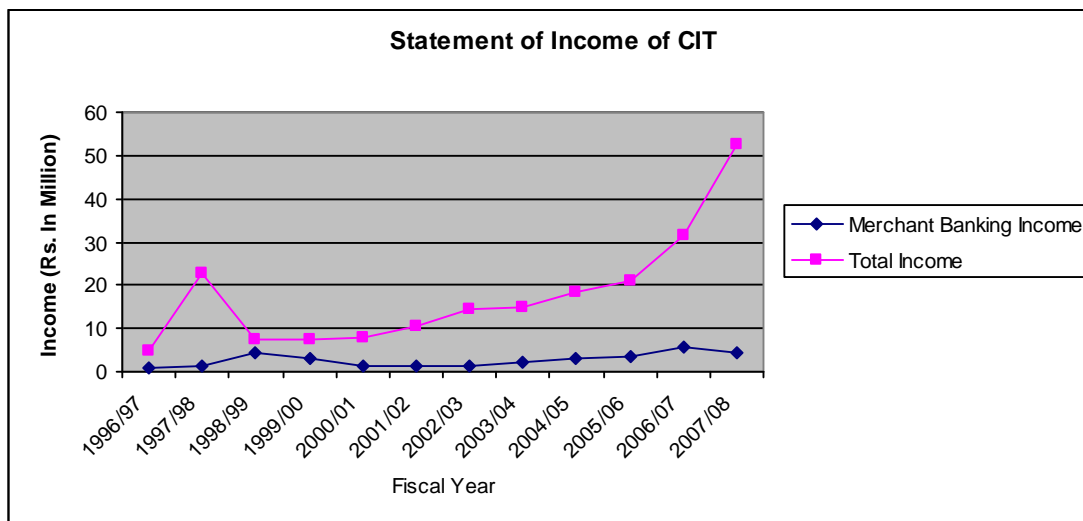


Figure 4.7



From the above figure, it is clear that merchant banking income in fiscal year 1997/98 to 1998/99 is increasing though the total income is decreasing comparatively. From fiscal year 2000/01, the total income of CIT is in increasing trend while the income from merchant banking is net. The income from merchant banking in fiscal year 2000/01, 2001/02 and 2002/03 is relatively low. Merchant banking income in fiscal year 2006/07

is highest out of twelve years but the total income in fiscal year 2007/08 is highest Rs. 52.349 million.

C. Merchant Banking Income of Nepal Merchant Banking and Finance Limited

NMB is also top merchant banker in Nepal. It has provided various services of merchant banking activities. The major sources of merchant banking income are as public issue management, underwriting of public issue, registrar to share issue, corporate counseling and consultancy service. The analysis of income of the company as compared to its total income has been presented in the table 4.13.

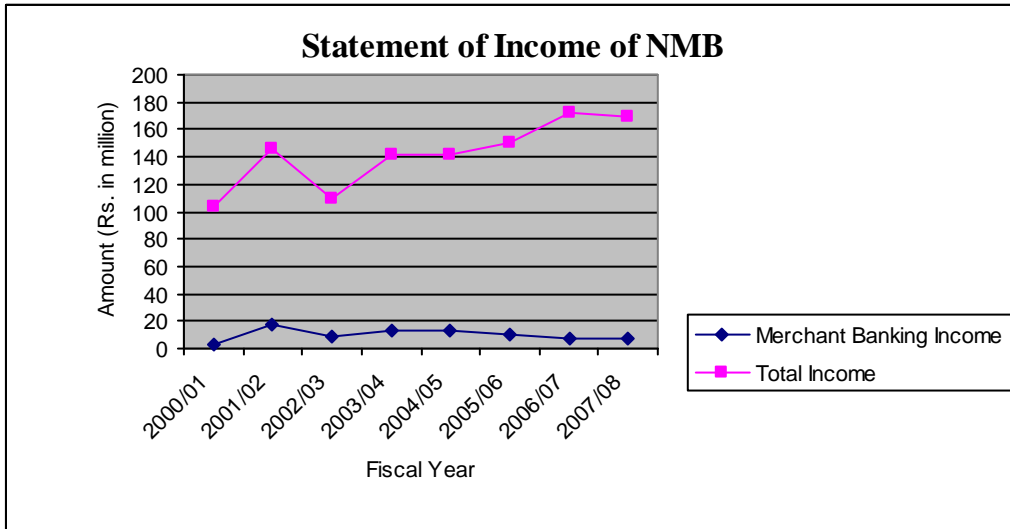
Table 4.13
Statement of Income of NMB

(Rs. in Million)

Fiscal Year	Merchant Banking Income (Rs.)	Total Income (Rs.)	% of Income from Merchant Banking to Total Income
2000/01	3.15	103.198	3.06
2001/02	18.199	145.744	12.49
2002/03	8.397	108.780	7.72
2003/04	12.887	141.182	9.13
2004/05	12.485	141.343	8.83
2005/06	10.158	150.584	6.75
2006/07	7.169	171.730	4.71
2007/08	7.785	170.032	4.58%

Sources: Annual Report of NMB

Figure 4.8



From the above table and figure shows that the merchant banking income of NMB was Rs. 3.158 million in fiscal year 2000/01 which was 3.06% of total income which increased to Rs. 18.199 million in fiscal year 2001/02 generating 12.49% to total income. The highest income amounting Rs.8.199 million which covered 12.49% of total income. The income however, decreased to Rs. 8.397 million in fiscal year 2002/03 making contribution of 7.72% of total income which increased to Rs. 12.887 million and Rs. 12.845 million making contribution of 9.13 and 8.83% of total income respectively in the fiscal year 2003/04 and 2004/05. the merchant banking income of NMB again gradually decreased to Rs. 10.158 million, Rs. 7.169 million and Rs 7.785 million in the fiscal year 2005/06, 2006/07 and 2007/08 respectively which contributing 6.75%, 4.71% and 4.58% of last three years. Merchant banking income of NMB is declining as compared to the previous years.

4.2.5 Comparative Study of Merchant Banking Income

This study has been conducted to study the income generated by various companies performing merchant banking activities comparatively. Here, NIDC and CIT has been performing merchant banking activities since the fiscal year from 1993/94 and NMB has been performing merchant banking activities since the fiscal year 1997/98. However, the

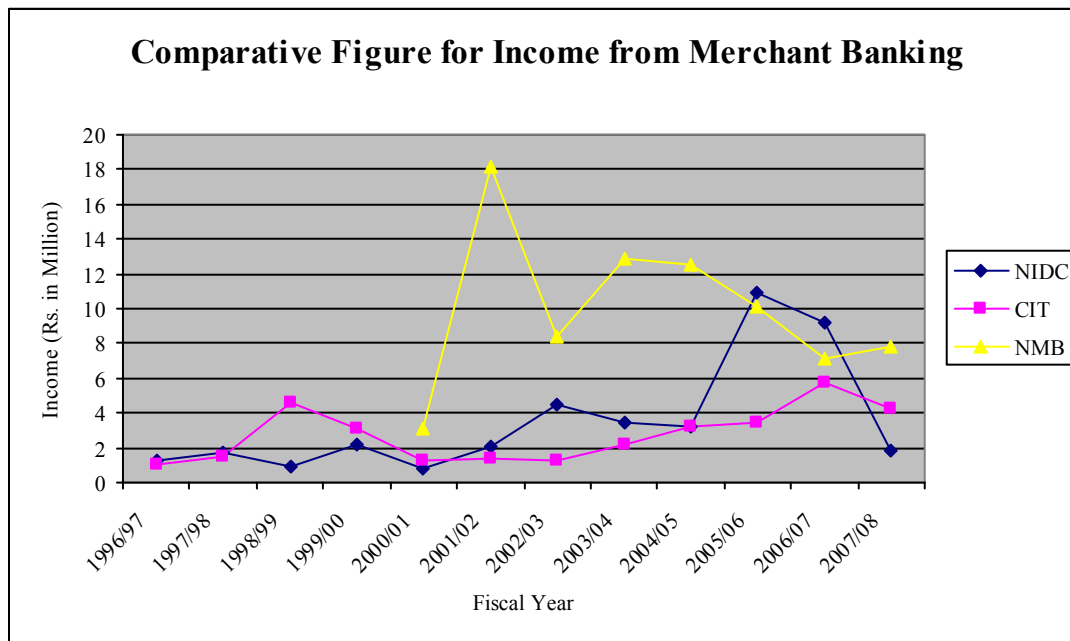
analysis has been tried to conduct with the data available. The comparative table as well as chart of the merchant banking income is as follows.

Table 4.14
Merchant Banking Income of Various Companies

(Rs. in Million)

Fiscal Year	NIDC	CIT	NMB
1996/97	1.295	1.085	
1997/98	1.695	1.439	
1998/99	0.884	4.561	
1999/00	2.163	3.121	
2000/01	0.782	1.292	3.158
2001/02	2.021	1.434	18.199
2002/03	4.464	1.274	8.397
2003/04	3.435	2.165	12.887
2004/05	3.241	3.189	12.485
2005/06	10.91	3.483	10.158
2006/07	9.24	5.748	7.169
2007/08	1.798	4.26	7.785

Figure 4.9



From the above table and chart it is clear that the merchant banking income of Citizen Investment Trust was increasing trend till fiscal year 1995/96, which decreased in the fiscal year 1998/99 to 2002/03. However, the income increased in the last four fiscal years. Merchant banking income of CIT has increased in last two years. The merchant banking income of NIDC capital markets is not uniform. It has increased to Rs. 10.91 million in the fiscal year 2005/06. But merchant banking income of 2007/08 was unexpectedly decreased to Rs. 1.798 million due to the unsuccessful to underwrite the public issue. The merchant banking income of Nepal merchant banking and finance limited though it has started its merchant banking activities from the fiscal year 1997/98, it is showing good performance in comparison to other companies. The income increased surprisingly from Rs. 3.158 million in the fiscal year 2000/01 to Rs. 18.199 million in the fiscal year 2001/02. The income has again increased to Rs. 12.887 million in the fiscal year 2003/04, Rs. 12.485 million and Rs. 10.158 million in the fiscal year 2004/05 and 2005/06 respectively. The income has decreased to Rs. 7.169 and Rs. 7.785 million in the fiscal year 2006/07 and 2007/08 respectively as compared with previous year's income. Thus, NMB has showed good performance of merchant banking activities and earned more income than other institutions.

4.2.6 Test of Consistency of Merchant Banking Income

Here, the attempt has been made to test the consistency of merchant banking income. The result of analysis obtained using statistical tools means \bar{X} , standard deviation (S.D.), co-efficient of variation (C.V.) is given in the table 4.15. the detail of the calculation is given in the appendix.

Table 4.15
Mean, S.D. and C.V. of Merchant Banking Income
(Taking Four Years Data from 1996/97 to 1999/00)

Tools	NIDC Capital Market Limited	Citizen Investment Trust
Mean \bar{X}	1.51	2.5315
Standard Deviation (S.D.)	0.474	1.39
Co-efficient of Variation (C.V.)	31.39%	54.56%

From the above table, it is clear that the mean merchant banking income of Citizen Investment Trust is the highest then the NIDC, which is Rs. 2.55 million and the average merchant banking income of NIDC is Rs. 1.51 million. Standard deviation of income is concerned the merchant banking income NIDC has been found to be less dispersed as compared to CIT. the standard deviation of merchant banking income is Rs. 0.474 million and Rs. 1.39 million of NIDC and CIT respectively. Similarly, when comparing the variation or the consistency of merchant banking income of two companies, the calculation shows that citizen investment trust has high co-efficient of variation to 54.56% as compared to 31.39% of NIDC. The coefficient of variation shows that merchant banking income of NIDC has high consistency while that of CIT has less consistency.

From the above data has been calculated taking four years from fiscal years 1996/97 to 1999/00 of NIDC and CIT. thus, the data of the three companies has been calculated for the uniformity for 8 years from the fiscal years 2000/01 to 2007/08. The details calculation is shown in appendix and the data obtained as such is shown in the table 4.16

Table 4.16
Mean, S.D. and C.V. of Merchant Banking Income
(Taking Eight Years Data from 2000/01 to 2007/08)

Tools	NIDC Capital Market Limited	Citizen Investment Trust	Nepal Merchant
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			Banking and Finance Ltd.
Mean \bar{X}	4.485	2.856	10.03
Standard Deviation (S.D.)	3.35	1.512	4.24
Co-efficient of Variation (C.V.)	74.60%	52.94%	42.31%

The table 4.16 shows that NMB is earning highest mean income among three, which was Rs. 10.03 million against Rs. 4.485 million and Rs.2.856 million of NIDC and CIT respectively. As far as standard deviation of income is concerned the merchant banking income of CIT has been found less risky as compared to other companies. The standard deviation of merchant banking income is Rs. 3.35 million, Rs. 1.512 million and Rs. 4.24 million respectively of NIDC, CIT and NMB. When companies, the table shows that NIDC has high coefficient of variation to 74.60% in comparison to 52.94% and 42.31% respectively of CIT and NMB. The coefficient of variation shows that merchant banking income of NMB has high consistency while that of NIDC capital markets and CIT has less consistency coefficient of variation is measured the consistency of data more C.V. less consistency and less C.V. high consistency.

4.3 Correlation analysis between Merchant Banking Incomes and Total Income

The correlation analysis is used to describe the degree of relationship between variables. It can be used between two or more variables. It shows the positive and negative relationship between the variables.

A. Calculation of correlation of coefficient between merchant banking income and total income of NCML

So, the calculation on annex shows the correlation between merchant banking income and total income of NCML. The correlation coefficient is -0.896, which shows there is negative relationship exists between the two variables. It indicated increase in total income leads very low decrease in MB income and vice versa. The value of r is less than P.E. so the relationship is not significant i.e. there is no evidence of correlation.

B. Calculation of correlation of coefficient between merchant banking income and total income of CIT

So, the calculation on the annex shows the correlation between merchant banking income and total income of CIT. The correlation coefficient is -0.99 , which shows there is negative relationship exists between the two variables. It shows increased in total income leads very low decrease in MB income and vice versa. The value of r is less than P.E. so the relationship is not significant i.e. there is no evidence of correlation.

C. Calculation of correlation of coefficient between merchant banking income and total income of NMB

So, the above calculation shows the correlation between merchant banking income and total income of CIT. The correlation coefficient is -0.98 , which shows there is negative relationship exists between the two variables. It shows increased in total income leads very low decrease in MB income and vice versa. The value of r is less than P.E. so the relationship is not significant i.e. there is no evidence of correlation.

4.4 Presentation and Analysis of Primary Data

The fact and concrete data are very essential for any kinds of research work. Primary data is the raw data of the research work. Primary data plays the vital role to make the research task meaningful. In the course of availing first hand data, questionnaire, formal and informal interview method have been adopted. From questionnaire analysis, important questions are set and provided to the related parties to take their opinion about merchant banking practices financial institutions in Nepal. A number of questions were put up by means of 25 copies of questionnaire. Questionnaires so collected are related to find out the opinion merchant banking. The responses from the respondents have been analyzed as follows.

4.4.1 Identification of Institutions Involved in Merchant Banking Activities

The first question tries to identify the institutions, those who are actively involved in merchant banking activities. Regarding this question, 36% of respondents answered

NIDC capital markets ltd., 16% answered Citizen Investment Trust and rest 12% answered as Nepal Merchant Banking and Finance Ltd. is participated in merchant banking function in Nepal. The table 4.20 gives clear picture to the question.

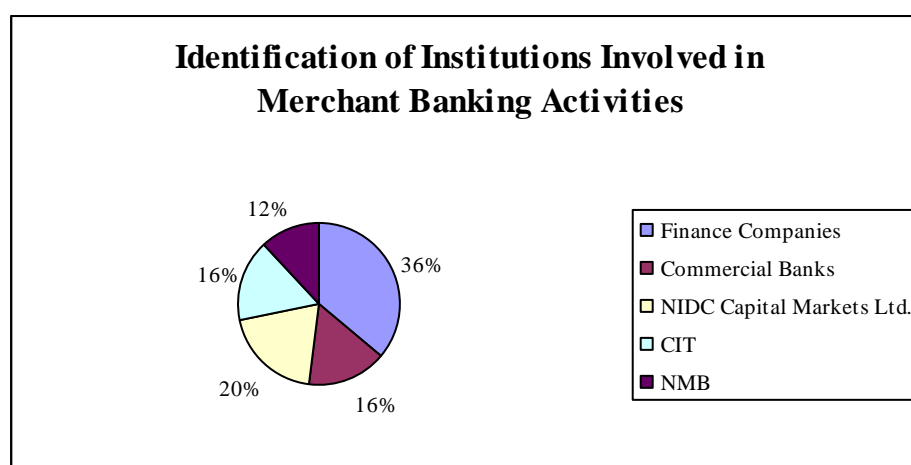
Table 4.17

Identification of Institutions Participating Actively Involved in Merchant Banking Activities

S.No.	Research Variable	No. of Viewers	% of Viewers
1	Finance Companies	9	36
2	Commercial Banks	4	16
3	NIDC Capital Markets Ltd.	5	20
4	CIT	4	16
5	NMB	3	12
Total		25	100

Source: Field Survey

Figure 4.10



4.4.2 Regulatory Body for Merchant Banking Activities

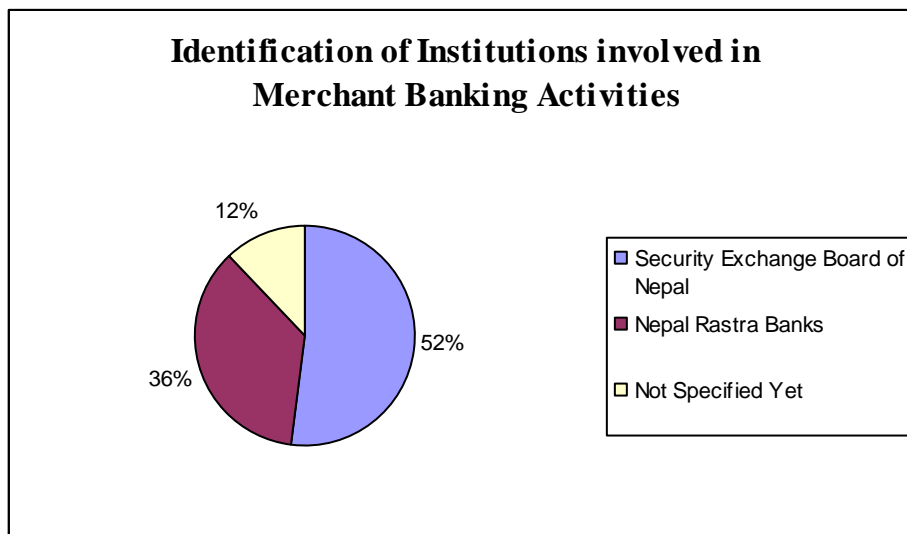
The question no. 2 has been asked to find out the regulatory body for merchant banking. Regarding this question, there are various answers from different respondents. According to 52% of respondents, Securities Exchange Board is the main regulatory body while 36% replied Nepal Rastra Bank and remaining 12% did not respond.

Table 4.18
Regulatory Body of Merchant Bankers

S. No.	Research Variable	No. of Viewers	% of Viewers
1	Security Exchange Board of Nepal	13	52%
2	Nepal Rastra Banks	9	36%
3	Not Specified Yet	3	12%
Total		25	100

Source: Field Survey

Figure 4.11



4.4.3 Regulatory Provisions Related to Merchant Banking Activities

This question has been asked to trace the specific rules, regulations and guidelines that would govern merchant banking activities. Regarding this question 32% of respondents gave positive answer. According to them, the Acts like company Act, finance companies Act, Securities Exchange Act etc are the regulatory provision that regulates merchant banking activities in Nepal. But 60% respondents rejected the view regarding availability related to the topic while 8% of respondents are unknown about it.

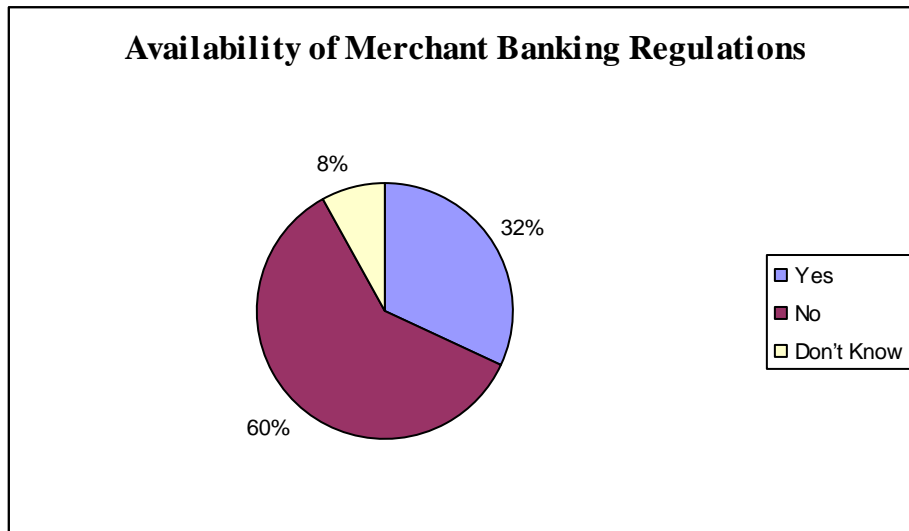
Table 4.19

Availability of Merchant Banking Regulations

S.No.	Research Variable	No. of Viewers	% of Viewers
1	Yes	8	32
2	No	15	60
3	Don't Know	2	8
Total		25	100

Source: Field Survey

Figure 4.12



4.4.4 Sufficiency of Merchant Banking Guidelines

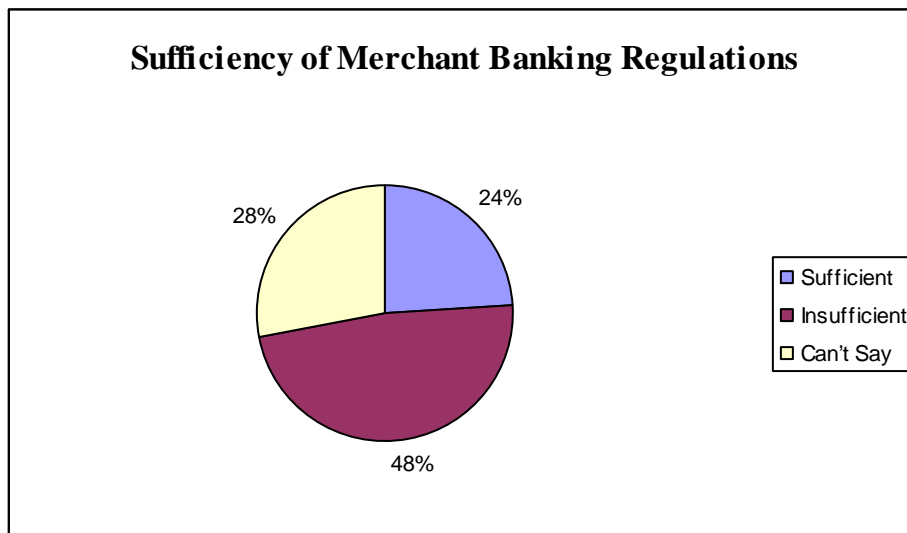
Merchant banks are regulated and supervised under some acts like securities exchange act, company act, finance company act etc. This question has been asked to find out weather these acts are sufficient for merchant banking functions or not. Regarding this question, 24% replied sufficient, 48% of respondents replied insufficient and 28% of respondents replied that couldn't be said. Table 4.23, shows the clear picture of the responses.

Table 4.20
Sufficiency of Merchant Banking Regulations

S. No.	Research Variable	No. of Viewers	% of Viewers
1	Sufficient	6	24%
2	Insufficient	12	48%
3	Can't Say	7	28%
Total		25	100

Source: Field Survey

Figure 4.13



4.4.5 Role Player for Merchant Banking Activities

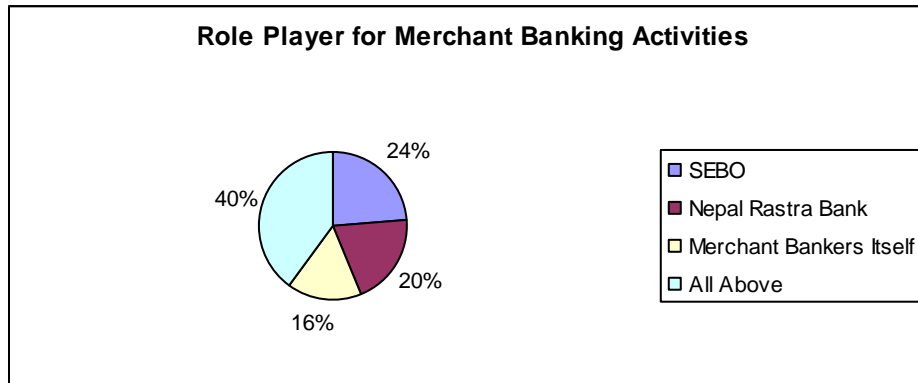
This question has been asked to find out the main body that has to play a major role for the development of merchant banking activities. Regarding this question 24% respondent said Securities Exchange Board of Nepal, 20% of respondents said Nepal Rastra Bank, 16% of respondents said Merchant Banks itself and 40% respondents said not a single entity but all the parties should play their own role for merchant banking development. Table 4.24 presents the brief summary of the responses.

Table 4.21
Role Player for Merchant Banking Activities

S. No.	Research Variable	No. of Viewers	% of Viewers
1	SEBO	6	24%
2	Nepal Rastra Bank	5	20%
3	Merchant Bankers Itself	4	16%
4	All Above	10	40%
Total		25	100

Source: Field Survey

Figure 4.14



4.4.6 Performance of Merchant Banking Functions

According to most of the respondents, there is the lack of specific acts, policies or regulations regarding merchant banking. There is no act that could define which institutions should involve in merchant banking function and which should not. Many respondents pointed out towards the capital market of Nepal as being an underdevelopment capital market. According to them, being only as a merchant banker, no any institutions can survive. Therefore, finance companies perform the functions of merchant bankers along with other functions.

Generally it comes to know that many finance companies in Nepal are performing the function of merchant banking. It is really surprising that the so called real merchant banks are not performing the function of merchant banking. The eighth question has been set to find out why many finance companies perform the function of merchant banking than the merchant bank itself. Regarding this question various responses have been obtained from different respondents.

Many finance companies actively perform the merchant banking function. On the other hand, many respondents pointed out towards the lack of merchant banking institutions in Nepal.

4.4.7 Problems in the Performance of Merchant Banking Activities

According to the most of the respondents the most important difficulties in the performance of merchant banking activities is lack of professionalism. There is less knowledge about merchant banking system. Conservative management style is another big problem in the performance of Merchant banking. As per many respondents, the problem and difficulties in merchant banking is not only because of the lack of proper guidelines but also because of unclear policies and guidelines but also because of unclear policies and insufficient regulatory framework. The problem is created due to lack of coordination between different regulatory bodies and merchant banking itself.

As it has been realized the lack of specific merchant bankers and sufficient banking activities in our country, the seventh question has been asked to find out the concrete reason for the difficulties in the performance of merchant banking activities. The question is also raised to high level executives of different fields through questionnaire as well as formal and informal interview. The respondents also pointed out towards various problems like current political situation, unconscious investors, underdeveloped industries sectors, lack of strategic planning and implementation etc.

4.4.8 Contribution of Merchant Banking towards the Development of Securities Market

This question has been developed to know the view of respondents regarding the contribution of merchant banking towards the development of securities market in Nepalese context. Many respondents viewed that there is the great significance of merchant banking towards the development of capital market. According to them, public issue management is synonymous with merchant banking in Nepalese context. Merchant bankers play vital role in performing different capital market activities like issue management, corporate counseling, underwriting, project planning etc.

Many of the respondents view that merchant banker's foster growth and development of capital market through many services. The capital market would not be developed unless there is no perfect competition in merchant banking services. According to the respondents, the high competition in merchant banking services is only possible when there is a strong economic environment. Thus, the respondents viewed that there is the significant contribution of merchant banking towards the development of securities market.

4.4.9 Reasons for Availability of Very few Merchant Banking Services

Many of the respondents blame to the government, as government is also not playing an important role. There is also lack of proper regulation and specific body to develop capital market and merchant banking. Similarly, the respondents pointed out toward the slackness of economic and business activities in the country resulting low volume of business and opportunities and lack of modern technology, research and development related activities.

As merchant banking is in an infancy stage in Nepal, this question has been asked to find out the reasons for the availability of few merchant banks. According to the many respondents the reasons for availability of very few merchant banking services are due to

its problems in performance of merchant banking services. According to them merchant banking is in introductory stage in Nepal. That is why there is lack of knowledge among the corporate/individuals about the merchant banking services.

4.4.10 Improvements Required for the Development of Merchant Banking Activities in Nepal

The last tenth question has been asked to gather suggestions for the improvement of merchant banking sectors. Respondents gave a lot of suggestions for the improvements required for boosting up merchant banking activities in Nepal. According to most of the respondents there should be specific acts, regulations, policies, guidelines regarding merchant banking. Regulatory authority should define the role of merchant banking.

Respondents also gave various suggestions like government should play promotional role for improvements overall economic conditions and open capital market to foreign investors. There should also be proper planning and commitment for development. The respondents also stressed for political stability, public awareness programs to train more people and create awareness among businessmen about merchant banking activities.

The capital market should be more strong and wide and it should play the crucial role for the development of merchant banking sector. Besides that, management should have clear business vision, financial discipline and good corporate culture level of specialization should be developed in the area of merchant banking and capital market. There should be provision of incentive to investors to invest in capital market and institutions to float their shares and other financial tools in the market.

4.5 Major Findings of the Study

Merchant banking in Nepal is a infancy stage and it has been developing with continuous upwards. The term merchant banking has come to emergence in Nepal from few years before but the people are still not familiar with merchant banking and than functions. While analyzing the activities of the merchant banks, it is found that merchant banking activities are concentrated on floating the public issues of securities. The service provided by merchant banking are as underwriting, sale of government securities, registrar to the share are secondary for most of the firms and other merchant banking activities like consultancy services, portfolio management etc are being performed rarely. Analysis of institution and instrument wise public issue reveals that most of the issuing companies are banks and the issuing companies prefer to issue ordinary shares most of the times. It is known that the public issues of securities are in increasing trend through the analysis of public issue. This increasing trend of public issue indicates the importance of merchant bankers and merchant banking activities for capital market development and growth of securities market.

Citizen Investment Trust (CIT) is a leading merchant banking in Nepal. While studying the activity performance of citizen investment trust, it has been providing various services of merchant banking like public issue management, underwriting, syndication of underwriting of public issue, registrar to the securities and consultancy services for designing capital structure, pricing of securities, corporate acts like merger and acquisition, privatization and other related activities.

Nepal merchant banking and finance limited (NMB) started merchant banking services few years ago and now NMB also lead the Nepalese capital market. While studying the activity performance of Nepal merchant banking and finance limited as a merchant banker, it is also provided underwriting of public issue of Nepal development bank limited in the fiscal year 1997/98 and development credit bank limited in fiscal year 1998/99. It has underwritten the ordinary share of Prudential Insurance Company limited

and Shikhar Insurance Company Limited in the fiscal year 2003/04 and 2004/05 respectively. NMB is providing registrar to share issue service to NABIL Bank Limited, Siddhartha Bank Limited, Siddhartha Bikash Bank, Gandaki Development Finance Institution, Everest Finance and Chhimak Bikash Bank. NMB can provide every kind of merchant banking service if clients desired to take that. Similarly, it also provides service of primary and secondary market of government securities and corporate counseling service to its clients.

NIDC capital market limited (NCML) is found to be the leading merchant banker in Nepal. While studying the activity performance of NIDC capital markets limited as a merchant banker. It is not only found to be performing public issue management but also the functions of underwriter and syndicate underwriting of public issue from the fiscal year 1993/94. It is also providing services of registrar to share of various companies. It has started up NCML mutual fund from 2050 B.S. NCML also participated in portfolio management of its customer in fiscal year 1994/95 which it had left in successive years. It also provides service of research and development of listed companies and prepares macro economic sector analysis.

While analyzing the income from merchant banking of NIDC capital markets limited, it has been found that major part of merchant banking income of NCML is also through public issue management, commission from underwriting share registrar and sale of government securities.

Analyzing the merchant banking of citizen investment trust (CIT), most of the merchant banking income earning from public issue management and CIT is also earning commission from sale of government bonds. But the earning from other merchant banking activities like registrar to the issue service, underwriting and consultancy services are not uniform. Merchant banking income of Nepal merchant banking and finance limited (NMB) is from Rs. 3 million to Rs. 18 million per year. Thus, the

merchant banking income of NMB has high degree of variance. However, the income is trending to consistent in the fiscal year 2000/01 and 2001/02.

The comparative study of income from merchant banking of various companies reveals that the merchant banking income of NCML and CIT is increasing very steadily. On the other hand, NMB though it has started performing merchant banking activities since 1997/98. NMB earned income second year very high then other years. The test of consistency has concluded that the merchant banking income of NMB is high consistency while that of NIC and NIDC is less consistency in income.

From the analysis of response of questionnaire about regulatory provision relating to the merchant banking function 32% of respondents agrees on the existence of merchant banking regulations. While 60% of respondents disagree with the current provision and remaining 8% are unknown about it. According to the respondents the regulations are company act, finance companies act, securities exchange act etc. From the analysis of response of questionnaire, it comes to know that most of the merchant banking functions are performed by finance companies and then by some other companies like few commercial banks and CIT. the major companies performing merchant banking activities are NIDC Capital Market Limited, CIT, NMB, Nepal Finance and Saving Company Limited, Nepal Sri-Lanka Merchant Bank Limited and National Finance etc.

Most of the respondents are not satisfied with the current acts and regulations regarding merchant banking. According to the most of the respondents both Nepal Rastra Bank and securities Exchange Board of Nepal should regulate the merchant banking function. The respondents regarding the body that has to play the key role in the merchant banking development, more than 50% respondents said that security exchange board of Nepal regulates the merchant banking function in Nepal. They suggested that all the bodies like Nepal Rastra Bank, Securities Exchange Board of Nepal and Merchant Banks itself has to play key role for the development of merchant banking activities.

Most of the respondents said that the position of capital market is still underdeveloped in our country and according to most of the respondents the reason behind more public issue of shares of banks and finance companies is due to the regulatory provision that has made compulsory for banks and finance companies to go for public.

CHAPTER V

SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The major objective of the research is to evaluate the performance of merchant banks. Its relationship towards the development of securities industry and to analyze its problems and prospect in Nepal. Merchant bankers work as a bridge to fill huge gap between demand of funds by the institutions and supply of untapped public savings. They are the intermediaries for the growth of capital market. Merchant bankers could be one of the major supporting instruments for any ongoing business organization.

Primary, as well as secondary data have been used as per the requirement of the research work. Many techniques were used to collect the data. Structured questionnaires, formal and informal interview, field survey, Annual reports published by related institutions, securities exchange board of Nepal and Nepal Rastra Bank etc were used to meet the objective of the study and to make the research meaningful. Secondary data were collected from NIDC capital markets, Citizen Investment Trust, Nepal Merchant Banking and Finance Limited, Securities Exchange Board of Nepal, Non-bank financial statistics of Nepal Rastra Bank, Library research, daily newspapers, magazines, bulletin, and other Journals etc.

The obtained information were tabulated and presented as per the requirement of the study. The data obtained are analyzed through different elements and with different headings like public issue analysis, activity performance of merchant bankers, income analysis, analysis of responses of questionnaires etc. to meet the objectives of the research work. The different statistical tools and financial tools were also adopted as test methodology.

The analysis starts from analyzing the institution and investment-wise public issue. It has been conducted from the perspective of finding out the significance of merchant banking towards the development of securities industries in Nepal. There have been 190 public issues of different companies amounting Rs. 12118.17 million from the fiscal year 1996/97 to 2007/08. Out of the total public issue of securities during the period, banks stand first position which is 71.5% of total public issues, 15.66% of public issues are made by finance companies. And other companies covered the public issue by 2.06%, 3.07%, 6.57%, 1.11% and 0.025% for insurance companies, manufacturing and processing company, hotels, trading and other companies respectively. Similarly, the most preferred instrument is issue of ordering share and right share. Out of the total public issue, 35.97% of issues are through ordinary shares. Other instrument like right share, preference share, debenture, mutual/ unit fund are issued in 40.38%, 5.11%, 17.77% and 0.91% respectively.

Merchant banking activities have been analyzed with the help of primary as well as secondary data. To assess the performance of financial institutions in relation to merchant banking activities, the analysis of the selected companies has been conducted. NIDC Capital Markets Limited is the first and leading merchant bankers in Nepal. It provides services of merchant banking like public issue management, underwriting, registrar to share, portfolio management, research and development. Under share issue management, it has handled 50 issues and raised amounting Rs. 4398.48 million from the fiscal year 1996/97 to 2007/008. It has already provided underwriting services of 8 companies. It has been providing registrar to the share service to 6 companies. It had managed portfolio of its customer only in fiscal year 1994/95. The research and development activities include listed companies in the area of cotton thread, garments, knitwear and tourism etc.

Citizen Investment Trust is one of the pioneers in merchant banking services. It provides services of merchant banking like share issue management, underwriting, and registrar to

share issue, consultancy services and portfolio management. Under issue management, it has handled 30 issues and raised amounting Rs. 2914.32 million from the fiscal year 1996/97 to 2007/08 citizen investment trust had provided underwriting services to 12 companies during the fiscal year 1996/97 to 2007/08 for various number of shares with various amounts. It had syndicated underwriting of 6 companies and Ristrya Banijya Bank, NIDC capital markets limited, national finance and Nepal merchant Banking and finance limited syndicated remaining. It is also providing Consultancy service in the area of capital market by designing capital structure, priority of securities, corporate acts like merge & acquisition, privatization and other related activities. It has been providing registrar to share service to Alliance insurance Company Ltd., Lumbani Bank Ltd., Butwal Power Company Ltd, and Chilime Hydropower Company Ltd.

As a merchant banker, Nepal merchant Banking and Finance Ltd, provides services of public issue management, under writing, registrar to share issue and corporate counseling. NMB has been providing merchant banking service since the fiscal year 1997/98 and it has issued share of 56 companies during the period from the fiscal year 1996/97 to 2007/08 amounting Rs. 2337.74 million. It has underwritten and syndicated the underwriting of 4 companies named Nepal Development Bank Limited, Development credit Bank limited, Prudential Insurance Company limited and Shikher insurance Co. Ltd. Amounting Rs, 7,00,000, Rs 70,00,000 , Rs, 2,00,00,000 and Rs, 2,50,00,000 respectively. Besides these services, NMB is also involved in services like providing necessary project evaluation to its potential clients.

NIDC capital markets Ltd is earning regular income from share issue management. It was earned commission from registrar to share issue since 1994/95 and commission from sale of govt. bonds since 1996/97. There was very less income from underwriting in comparison to income from other services. NIDC capital markets Ltd started earning commission from portfolio management only in the fiscal year 1994/95. The percentage of earning from merchant banking income to total income is 14.33%, 16.09%, 32.80%,

17.11%, 3.58%, 15.67%, 10.18% and 2.5% respectively from the fiscal year 1996/97 to 2007/008.

Analyzing the income of Citizen Investment Trust, it is found that it is earning income from share issue management and from sales of government bonds regularly. It has earned commission of Rs 0.138 million from consultancy fee only in fiscal year 2000/01 while it had earned commission of Rs. 0.062 million in fiscal year 1996/97. It earned highest income totaling to Rs. 52.34) million for the fiscal year 2004/05. The percentage of earning from merchant banking to total income is 22.53%, 6.29%, 60.65%, 41.52%, 16.74%, 13.59%, 8.85%, 14.75%, 17.46%, 16.43%, 18.18% and 8.14% respectively from the fiscal year 1996/97 to 2007/008.

Nepal merchant Banking and finance Ltd. is earning from merchant banking since 1997/98. NMB also earned income from merchant banking activities like, public issue management, underwriting, registrar to share issue, consultancy service and profitability management etc. The merchant banking income was ranging from Rs 3.158 million to 18.19 million in the fiscal year 2000/01 to 2001/002. The percentage of earning from merchant banking to total income is Rs. 3.06%, 12.49%, 7.72%, 9.13%, 6.75%, 4, 71% and 4.58% respectively form the fiscal year 2000/01 to 2007/08.

The test of constancy of merchant banking income of selected companies reveals that, it has co-efficient of variation of 52.94%, the co-efficient of variation of NIDC Capital Markets Ltd. is 74.60% and NMB is 42.31%. Similarly, the average income is Rs. 2.856 million while that of NIDC Capital Markets Ltd is Rs 4.485 million and Nepal Merchant Banking and Finance Ltd is Rs. 10.03 million.

From the analysis of responses of questionnaire, it is known that finance companies are most actively involved in merchant banking functions while other institutions like few banks are performing this activity. Regarding the regulate provisions of merchant

banking, more than 50% of the respondents do not agree on the availability of regulatory provision. According to them some acts like finance companies Act, commercial bank acts should regulate the merchant banking activities. There should be a separate provision of Act regarding the merchant banking services.

The respondents also pointed out lot of problems in the performance of merchant banking functions with reasons. They also suggested remedies so that merchant banking activities can be improved and boosted up in Nepal. Regarding the major role player for merchant banking activities respondents said that merchant bank itself should be self motivated. On the other hand, Nepal Rastra Bank (NRB) and Securities Exchange Bound of Nepal (SEBO) should motivate and provide favorable environment.

According to the majority of the respondents, Securities Exchange Board of Nepal should regulate the merchant banking function as NRB is governing body of financial institutions. On the other hand, one of the mission of SEBO is to facilitate the orderly development of a dynamic and competitive capital market.

5.2 Conclusion

Nepal is a developing country, so financial institutions have a great role in the development of capital market as well as in the economy as a whole. The term merchant banking does not seem to be familiar to many financial institutions in Nepal. Very few people know the coverage of the Merchant Banking, as it is enormous and vast. The area of functions is unlimited to the merchant banker. Merchant banking services therefore, are of great help to entrepreneur, customers who cannot afford a permanent staff or financial specialists. Their activities are one of the major supporting instruments for any ongoing business organizations. They can play a highly significant role in mobilizing fund from savers to invest through various channels assuring and promising return on investment. But in practice, very few finance companies and banks are performing the function o merchant banking. Thus, they serve as an important intermediary to provide

needed capital to corporations. Hence, the attempts have been made to find out the practices of merchant banking by financial institution and position of merchant banking in Nepal. The conclusion drawn under the support of presented data, facts and figures are given below.

The importance of merchant banking is increasing gradually as result of development activities after the restoration of democracy and economic liberalization in Nepal. The performance analysis of three leading merchant banks show that even the leading merchant bankers like NCML, NMB are found to be operating in limited areas of merchant banking services like share issuer management, under writing, syndication of underwriting, registrar to share issuer management, sale of government bonds. Their involvement in other merchant banking services like portfolio management, corporate counseling, project planning is very rare and the services like venture capital, factoring, merge and acquisition etc are not yet introduced.

There is not a long history about merchant banking in Nepal. Merchant banking is a new concept in Nepal the financial institutions participating actively in merchant banking services like finance companies, NIDC Capital Markets, Citizen Investment Trust and few banks. Nepal Credit and Commerce Bank have also extended a separate department for investment banking. NIDC Capita Markets Ltd. is the first financial institutions of introduce merchant banking in Nepal.

Merchant Banking and capital market are interdependent with each other in many aspects. Capital market provides an important base for the development of industry, commerce and economy. In this regard the analysis of public issue shows that merchant bankers are also playing highly significant role towards the development of securities industry as well as capital market in Nepal. Merchant bankers are providing merchant banking service as their sub function while their prominent functions have been found something else like deposit, loan, and advance and others, Thus merchant banking activities in Nepal are associated with other transactions of the finance companies though

global merchant banking is taken to mean everything in financial services. This word is understood to be synonymous with issue management. However, NCML is in pipeline to introduce Nepal Industrial Venture Capita Fund (NIVCF) in Nepal.

Generation of income is the primary objective of each organization. Without earning income the company can't sustain and grow its business. In these connections, the analysis of income from merchant banking has been performed to study its growth. The analysis shows that NIDC capital markets is also earning most of its merchant banking income from share issue management, underwriting, registrar to share issuer and sale of government bonds. It is generating most of the income from share issuer management and sales of government bonds. It has earned income from consultancy in the fiscal year 2000/01 only. However, it is generating income from underwriting and registrar to the share issuer since the fiscal year 1999/2000. It has earned commission from portfolio management in the fiscal year 1994/95 but it gave up this function due to various problems. NMB is showing the best performance in merchant banking which proves that merchant banking activities can also be the best source of income for any fast growing financial institutions.

Merchant banking income trend of NIDC Capital Markets Ltd. and Citizen Investment Trust are quite similar. They are generating average merchant banking income amounting Rs. 4.485 million and Rs. 2.856 million respectively, Nepal Merchant Banking and Finance Ltd., though entered in merchant banking activities since 1997/98, generating income is higher in comparison to NCML. The average income of last eight years is Rs 10.03 million that is also unbelievably high. The co-efficient of variation shows the consistency of variables in the give period of time. Higher co-efficient of variation indicates how consistency and vice versa. Regarding merchant banking income, the income of NCML is mere inconsistent among the three companies taken for the study while that of NMB is more consistent which also shows the better performance of NMB

in consistent, and also shows the better performance of NMB in merchant banking activities.

Many factors are hindering in the development of merchant banks in Nepal. Merchant banking is still unknown to most of the public because of insufficient publicity and information resulting to low demand of merchant banking services. It is also not being able to prosper due to the lack of proper industrialization and financial marketing activities. Thus, in spite of the importance of merchant banking services, many of the merchant banking services in our country are still poor. Nepalese merchant banks are still logging behind. Current situation of the country with the political instability and other many problems are also creating a great barrier for the proper development of merchant banking sector including industry, trading and other business activities.

The acts regarding the regulations of merchant banking seems to be insufficient. Though Finance Company Act, NIDC Act, CIT Act, Commercial Bank Act etc permit to perform merchant banking activities. But none of them are given clear Acts, roles and regulations regarding merchant banking. Section 3 (e) of Finance Company Act permits finance companies to sell and purchase the bonds issued by Government of Nepal or securities issued by other companies or institutions, to underwrite them and to form syndicate and to act as broken under the securities Exchange Act and section 3(g) of the same act permits them to perform functions of merchant banking with prior approval of NRB. However, it has not specified the area or functions regarding merchant banking. Other acts are also facing similar problems.

5.3 Recommendations

Analyzing the above data and facts, the conclusion has been made, though there are no any immediate remedies for the permanent solution of the problems. Some recommendations could be made. Those recommendations could be the best in future for the development of this field as well as the economy as a whole. After analyzing the

above facts, objectives and the present day to day trend of merchant banking, the recommendations are made for all consider and implement. Some important problems are identified and recommendations are made accordingly.

1. As many merchant bankers are diversifying their functions to many activities, they should try to focus or specialize their services on merchant banking functions rather than making it only a part of their function. They should also try to provide other merchant banking function instead of sticking on selected merchant banking business. Similarly, they should also make arrangements to introduce business and encourage savers outside Kathmandu valley to make them investors in the market.
2. This sector is not growing rapidly in comparison to other sectors because of the many reasons. One of the major reasons is merchant banks are moving toward diversifying their functions on other financial activities because of the difficulty of survival by performing sole merchant banking functions. The question of survivable has been raised due to unhealthy and underdeveloped capital market as well as money market. Thus, financial policy should give attention toward development of financial market by launching various programs and increasing investor's awareness. There should be clear rules and regulations regarding merchant banking in Nepal. The rules should be such that which would motivate financial institutions to perform merchant banking activities.
3. As it has been stated many times, there are no any specific acts regarding merchant banking & clear cut acts, regulations and policies are very necessary for the development of merchant banking sector. Since, Nepal Rastra bank is the governing body of financial intermediaries, it should take continuous initiative to provide conducive environment to conduct the various merchant-banking activities. Co-ordination between different sectors in necessary for the conducive environment of merchant banking. There should be continuous co-ordination with regulations like the

securities Exchange board of Nepal, Nepal Rastra Bank, the Institute Chartered Accountants of Nepal and the Office of Company Registrar.

4. There should be wide range of programs for the development of this sector. Some specific training related to various merchant banking activities should also be conducted by NRB and concerned merchant banks. The legal aspects have to be transparent to everyone. The corporate should be encouraged so that it could boost up the merchant banking activities. If required, experts of the different merchant banking activities should also be invited from other countries to train and develop the local manpower.
5. In this situation, everybody should be more aware on current affairs of the country. Merchant bankers have to be more active to take latest information about the economic, social and political environment of our countries and appraise the foreigners with the facilities and relaxations in various rules and regulations of the government and the policy framework available for their technological expertise to Nepalese entrepreneur and to collaborate in any other useful manner.
6. To boost up the merchant banking activities and to balance with other countries, merchant bankers should frequently make exploring tours to foreign countries, organize meetings and conferences with the Chamber of Commerce and Industry and other commercial, industrial and financial organizations so as to enthuse the foreigners to take interest in investment activities in Nepal.
7. As being the leading merchant bankers of the country, NIDC Capital Markets has to play the crucial role for the development of this sector. Capital Markets Limited should draw its attention to increase merchant banking activities to be parallel with other activities. NCML, instead of giving up its activities from portfolio management, should be more innovative and dynamic to be a leading merchant banker because

managing portfolio is also one of the most challenging functions of merchant banking. On the other hand Citizen Investment Trust should not ignore other merchant banking activities like underwriting, registrar to share issue, Consultancy served etc. Though Nepal merchant Banking and finance Limited is trying to be a leading merchant banker in Nepal, it should be more active in merchant banking activities and should diversify its management and sale of government bonds.

8. As it has already started, we are in an early stage of development of companies and the capital market. It is particularly important to develop venture capital companies, equipped with the skills, techniques and capital needed to invest in unquoted companies and help them grow to the point where they are ready for flotation on the stock market.
9. As the prevailing political instability and uncertainty is the major problem for any sectors, this sector cannot be far from this fact. Now, the political situation of Nepal is improving and we hope Nepalese financial market will be developed. Therefore, it should be resolved as soon as possible so that capital market will start to improve its pace easily as expected. As the capital market activities starts growing other merchant banking activities will also follow it.
10. While doing research work, it has been known that merchant banking services like underwriting of the public issue is in decreasing trend because securities are easily saleable in the market and only few insurance companies are giving these services. Now, there is a need to expand the merchant banking activities by conducting other services like portfolio management, project counseling, consultancy services etc.

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Appendix: 1
Issue Approved at Glance (Instrument Wise)
(Fiscal Year 1996/97 to 2007/08)

F/Y	Ordinary Share		Right Share		Preference Share		Debenture		Unit Trust		Total	
	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount
1996/97	14	227.90			2	16.50			1	100.00	17	344.40
1997/98	11	204.21							1	50.00	12	254.21
1998/99	10	224.74	2	69.00							12	293.74
1999/00	2	57.00	3	275.20							5	332.74
2000/01	8	119.40	3	249.96			1	93.00			12	462.36
2001/02	3	148.00	1	30.00	1	80.00					5	258.00
2002/03	6	412.46	3	124.60							9	537.06
2003/04	6	268.50	3	365.79							9	634.29
2004/05	10	528.76	4	387.87	1	140.00	1	360.00			16	1416.63
2005/06	12	551.50	4	162.24					1	100.00	17	813.74
2006/07	11	755.00	4	429.92			1	300.00			16	1484.92
2007/08	5	300.89	6	669.42			1	300.00				
Total	98	3798.79	33	2763.58	4	237	4	1053	3	250	142	8101.86

Appendix: 2
Issue Approved at Glance (Sector Wise)
(Fiscal Year 1996/97 to 2007/08)

F/Y	Bank		Finance Company		Insurance Company		Mfg. And Processing		Trading Company		Hotel		Other Com		Total	
	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount				
1996/97	1	36.00	4	115.80	2	36.00	7	104.20					3	52.40	17	344.40
1997/98	2	72.00	4	104.25	2	24.00	4	53.96							12	254.21
1998/99			8	95.12			4	198.62							12	293.74
1999/00	1	45.00	2	32.00	1	30.00	1	225.20							5	332.20
2000/01	1	241.95	6	50.50	1	20.00	3	146.90	1	3.01					12	462.36
2001/02			2	38.00	1	20.00					2	200.00			5	258.00
2002/03	1	175.00	5	112.26	1	10.20					1	150.00	1	59.60	9	537.06
2003/04	4	551.21	5	83.08											9	634.29
2004/05	6	989.17	8	204.00	1	50.00	1	173.46							16	1416.63
2005/06	4	454.74	11	289.00	2	70.00									17	813.74
2006/07	7	1178.92	7	146.00	1	20.00	1	140.00							16	1484.92
2007/08	6	910.31	5	123.20									1	234.41	12	1270.92
Total	33	4654.3	67	1393.21	12	280.20	21	1042.24	1	30.01	3	350	5	379.41	142	8101.86

Appendix 3
Calculation of Mean, Standard Deviation & Co-efficient of Variation
Taking Data From 1996/97 to 1999/00

(Rs In Million)

F/Y	NIDC Capital Markets Ltd.			Citizen Investment Trust		
	X	X- \bar{X}	(X- \bar{X}) ²	X	X- \bar{X}	(X- \bar{X}) ²
1996/97	1.2950	-0.215	0.0462	1.085	-1.4665	2.1506
1997/98	1.6950	-0.525	0.2756	1.4390	-0.8653	0.7487
1998/99	0.8840	-1.336	1.7849	4.5610	2.2567	5.0927
1999/00	2.1630	-0.057	0.0032	3.1210	0.8167	0.667
Total	6.037		0.8987	10.206		7.7505

A. For NIDC Capital Market Ltd.

a. Calculation of Mean \bar{X}

$$\text{Mean } \bar{X} = \frac{\sum X}{N} = \frac{6.037}{4} = 1.51$$

b. Calculation of Standard Deviation:

Standard Deviation

$$s = \sqrt{\frac{\sum (X - \bar{X})^2}{N}} = \sqrt{\frac{0.8987}{4}} = 0.474$$

c. Calculation of Co-efficient of Variation:

Co-efficient of Variation

$$(C.V) = \frac{s}{\bar{X}} \times 100\% = \frac{0.474}{1.51} \times 100 = 31.39\%$$

B. For Citizen Investment Trust.

a. Calculation of Mean \bar{X}

$$\text{Mean } \bar{X} = \frac{\sum fX}{N} = \frac{10.206}{4} = 2.5515$$

b. Calculation of Standard Deviation:

$$\text{Standard Deviation} \\ s = \sqrt{\frac{\sum f(X-\bar{X})^2}{N}} = \sqrt{\frac{7.7505}{4}} = 1.39$$

c. Calculation of Co-efficient of Variation:

$$\text{Co-efficient of Variation} \\ (\text{C.V.}) = \frac{s}{\bar{X}} \times 100\% = \frac{1.39}{2.5515} \times 100\% = 54.56\%$$

Appendix 4
Calculation of Mean, Standard Deviation & Co-efficient of Variation
Taking Data From 2000/01 to 2007/08

F/Y	NIDC Capital Markets Ltd.			Citizen Investment Trust			Nepal Merchant Banking & Finance Ltd		
	X	X- \bar{X}	(X- \bar{X}) ²	X	X- \bar{X}	(X- \bar{X}) ²	X	X- \bar{X}	(X- \bar{X}) ²
2000/01	0.782	-3.703	13.7122	1.292	-1.564	2.4461	3.158	-6.872	47.2244
2001/02	2.021	-2.464	6.0713	1.434	-1.422	2.0221	18.199	8.169	66.7326
2002/03	4.464	-0.021	0.0044	1.274	-1.582	2.5027	8.397	-1.633	2.6667
2003/04	3.435	-1.05	1.1025	2.165	-0.691	0.4775	12.887	2.857	8.1624
2004/05	3.241	-1.244	1.5475	3.189	0.333	0.1109	12.485	2.455	6.027
2005/06	10.91	6.425	41.2806	3.483	0.627	0.3931	10.158	0.128	0.0164
2006/07	9.24	4.755	22.6100	5.748	2.892	8.3637	7.169	-2.861	8.1853
2007/08	1.718	-	3.2328	4.260	1.404	1.9712	7.785	-	5.04

		2.767						2.245	
Total	35.882		89.5613	22.845		18.2873	80.238		144.0548

A. For NCML

a. Calculation of Mean \bar{X}

$$\text{Mean } \bar{X} = \frac{\sum fX}{N} = \frac{35.882}{8} = 4.485$$

b. Calculation of Standard Deviation:

$$\text{Standard Deviation } \sigma = \sqrt{\frac{1}{N} \sum f(X - \bar{X})^2} = \sqrt{\frac{1}{8} \times 89.5613} = 3.35$$

c. Calculation of Co-efficient of Variation:

$$\text{Co-efficient of Variation (C.V)} = \frac{\sigma}{\bar{X}} \times 100\% = \frac{3.35}{4.485} \times 100\% = 74.60\%$$

B. For Citizen Investment Trust

a. Calculation of Mean \bar{X}

$$\text{Mean } \bar{X} = \frac{\sum fX}{N} = \frac{22.845}{8} = 2.856$$

b. Calculation of Standard Deviation:

$$\text{Standard Deviation } \sigma = \sqrt{\frac{1}{N} \sum f(X - \bar{X})^2} = \sqrt{\frac{1}{8} \times 18.2873} = 1.512$$

c. Calculation of Co-efficient of Variation:

$$\text{Co-efficient of Variation (C.V)} = \frac{\sigma}{\bar{X}} \times 100\% = \frac{1.512}{2.856} \times 100\% = 52.94\%$$

C. For NMB

a. Calculation of Mean \bar{X}

$$\text{Mean } \bar{X} = \frac{\sum fX}{N} = \frac{80.238}{8} = 10.03$$

b. Calculation of Standard Deviation:

Standard Deviation

$$\sqrt{\frac{1}{N} \sum f(x - \bar{X})^2} = \sqrt{\frac{1}{8} \times 144.0548} = 4.24$$

c. Calculation of Co-efficient of Variation:

Co-efficient of Variation

$$(C.V) = \frac{s}{\bar{X}} \times 100\% = \frac{4.24}{10.03} \times 100\% = 42.31\%$$

Appendix 5
Calculation of correlation of coefficient between merchant banking income and total income of NCML

Fiscal year	Merchant Banking Income (X)	Total Income (Y)	X ²	Y ²	XY
1996/97	1.295	9.034	1.677	81.613	11.699
1997/98	1.695	10.532	2.873	110.923	17.852
1998/99	0.884	2.695	0.781	7.263	2.382
1999/00	2.163	12.644	4.679	159.871	27.349
2000/01	0.782	21.823	0.612	476.243	17.066
2001/02	2.021	34.275	4.084	1174.776	69.270
2002/03	4.464	50.953	19.927	2596.208	227.454
2003/04	3.435	58.250	11.780	3393.063	200.089
2004/05	3.241	54.148	10.504	2932.006	175.494
2005/06	10.91	69.614	119.028	4846.109	759.489
2006/07	9.24	90.80	85.378	8244.64	838.992
2007/08	1.798	83.785	3.233	7019.926	150.645
Total	41.928	417.553	264.576	31042.641	2497.780

Where,

X = Merchant Banking Income

Y = Total Income

a. Coefficient of Correlation (r)

$$r = \frac{\sum XY - \frac{\sum X \sum Y}{N}}{\sqrt{\left[\sum X^2 - \frac{(\sum X)^2}{N} \right] \left[\sum Y^2 - \frac{(\sum Y)^2}{N} \right]}}$$

$$r = \frac{2497.780 - \frac{41.928 \times 417.553}{12}}{\sqrt{\left[264.576 - \frac{(41.928)^2}{12} \right] \left[31042.641 - \frac{(417.553)^2}{12} \right]}}$$

$$r = 0.896$$

b. Probable Errors (PE)

$$PE = \frac{0.6745 \sqrt{1 - r^2}}{\sqrt{n}}$$

$$= \frac{0.6745 \sqrt{1 - (0.896)^2}}{\sqrt{12}}$$

$$= 0.038$$

Appendix 6
Calculation of correlation of coefficient between merchant banking income
and total income of CIT

Fiscal year	Merchant Banking Income (X)	Total Income (Y)	X ²	Y ²	XY
1996/97	1.085	4.816	1.177	23.194	5.225
1997/98	1.439	22.873	2.071	523.174	32.914
1998/99	4.561	7.520	20.803	56.550	34.299
1999/00	3.121	7.517	9.741	56.505	23.461
2000/01	1.292	7.720	1.669	59.598	9.974
2001/02	1.434	10.552	2.056	111.345	15.132
2002/03	1.274	14.395	1.626	207.216	18.339
2003/04	2.165	14.673	4.687	215.296	31.767
2004/05	3.189	18.269	10.170	333.756	58.260
2005/06	3.483	21.200	12.131	449.49	73.839
2006/07	5.748	31.623	33.040	1000.014	181.769
2007/08	4.260	52.349	18.148	2740.418	223.007
Total	33.051	213.507	117.318	5776.508	707.986

Where,

X = Merchant Banking Income

Y = Total Income

a. Coefficient of Correlation (r)

$$= \frac{XY - X \cdot Y}{\sqrt{N X^2 - (X)^2} \cdot \sqrt{N Y^2 - (Y)^2}}$$

$$= \frac{707.7986 - 33.051 \times 213.507}{\sqrt{12 \times 117.318 - (33.81)^2} \cdot \sqrt{12 \times 5776.508 - (213.507)^2}}$$

$$= -0.99$$

b. Probable Errors (PE)

$$= \frac{0.6745 (1 - r^2)}{\sqrt{n}}$$

$$= \frac{0.6745 (1 - (-0.99)^2)}{\sqrt{12}}$$

$$= -0.04$$

Appendix 7
Calculation of correlation of coefficient between merchant banking income and total income of NMB

Fiscal year	Merchant Banking Income (X)	Total Income (Y)	X ²	Y ²	XY
2000/01	3.15	103.198	9.922	10649.83	325.074
2001/02	18.199	145.744	331.203	21241.31	2652.395
2002/03	8.397	108.780	70.509	11833.09	913.423
2003/04	12.887	141.182	166.075	19932.36	1819.412
2004/05	12.485	141.343	155.875	19977.84	1764.667
2005/06	10.158	150.584	103.185	22675.54	15538.005
2006/07	7.169	171.730	51.395	29491.54	1231.132
2007/08	7.785	170.032	60.606	28910.88	1323.699
Total	80.23	1132.593	948.771	164712.045	25567.81

Where,

X = Merchant Banking Income

Y = Total Income

a. Coefficient of Correlation (r)

$$= \frac{XY - X \cdot Y}{\sqrt{N X^2 - (X)^2} \cdot \sqrt{N Y^2 - (Y)^2}}$$

$$= \frac{25567.81 - 80.23 \times 1132.593}{\sqrt{8 \times 948.771 - (80.23)^2} \cdot \sqrt{8 \times 164712.045 - (1132.593)^2}}$$

$$= -0.98$$

b. Probable Errors (PE)

$$\frac{0.6745 (1 - r^2)}{\sqrt{n}}$$

$$= \frac{0.6745 (1 - (-0.98)^2)}{\sqrt{8}}$$

$$= -0.12$$

Appendix 8

Questionnaire

Dear Respondent

I would like to humbly request you to provide me the following information for my masters Degree Thesis titled "Merchant Banking Practices Financial Institutions In Nepal" in the partial fulfillment of the requirement of the degree of masters in Business Studies (MBS).

I would also like to assure that the information provided by you will be exclusively used for academic research purpose only.

I shall be highly obliged for you prompt response. And your co-operation in this regard will be highly and heartily recognized.

Thank you,

Rikshit Dhakal

Researcher

Nepal Commerce Campus

Name of the Respondent (optional):

Designation:

Name of the company:

Address:

1. Which Institution would you think is actively participated in merchant banking function?

- a) Finance Companies
- b) Commercial Banks
- c) NIDC Capital Markets Ltd.
- d) CIT
- e) NMB

2. Which institution should have to take the responsibilities of regulating reading the Merchant Banking?

- a) Security Exchange Board
- b) Nepal Rastra Bank
- c) Net Specified Yet

3. Is there any sufficient act and regulation provision that is related to merchant banking in Nepal?

- a) Yes
- b) No
- c) If Yes, Please Specify.....

4. Would you feel that the existing guidelines issued by Security Exchange Board of Nepal Sufficient for health growth of merchant banking activities?

a) Sufficient

b) Insufficient

c) Can't say

5. Who has to play the major role to develop merchant banking in Nepal?

a) Security Exchange Board of Nepal

b) Nepal Rastra Bank

c) Merchant Banks Itself

d) All Above

6. Many finance companies perform the function of merchant banking than merchant banking itself, why?

.....
.....

10. What are the problems and difficulties, would you think, in performing merchant banking activities in Nepal?

.....
.....

8. What is the contribution of merchant banking, would you think towards the development of securities market in Nepal?

.....
.....

9. What are the reasons for availability of few merchant banking services in practice in our country?

.....
.....

10. In your opinion, what should be done to improve merchant banking sectors?

.....
.....

Thank you